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Programs for Mitigating Adverse Social Impacts During Adjustment: The A.I.D. Experience

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Summary

Study Objectives

This study synthesizes information from the literature and from interviews on the Agency for International Development's (A.I.D.) experience in implementing compensatory and social safety net programs within the context of policy reform. The study uses a case study approach to assess the strengths and weaknesses of A.I.D.'s participation in severance programs for former public employees in Mali, public works programs in Tunisia, and food-aid schemes for cushioning potential shocks related to food price liberalization in Madagascar. The study's general objective is to

review A.I.D.'s experience in designing and implementing cost-effective interventions that seek to increase the equity and sustainability of the adjustment process.

More specific objectives include the following:

Assessing the cost-effectiveness and social and political contribution of various interventions to the adjustment process

Identifying strengths and weaknesses in the design and implementation of these programs, especially in terms of A.I.D. policy and operational issues

Formulating recommendations for A.I.D. decision-makers on the nature of future commitments to these types of interventions

Overview

Considering the size of A.I.D. and its presence in most developing countries, the number of A.I.D.-supported compensatory and social safety net program activities is small. There are several reasons for this: the difficulty of classifying programs, which leads to some programs being missed; the relative newness of the idea of providing safety nets during adjustment; administrative problems involved in funding some of these programs; and the prevailing view in certain A.I.D. regional bureaus that appears to have discouraged support of these types of programs. These bureaus view the social costs of adjustment as a temporary development fad and economic growth as the best remedy for poverty alleviation.

All of these activities are funded using local currency proceeds generated from nonproject assistance programs. There is considerable difficulty in determining funding levels because local currency uses are rarely discussed at length in program documents.

The Case Studies

Criteria for selecting the case studies were as follows: (1) programs could be categorized as safety nets or compensatory, (2) they were undertaken during a period of adjustment or major policy reform, (3) A.I.D. had provided them with at least partial funding, and (4) they had been evaluated.

The Mali Voluntary Early Departure Program

The Voluntary Early Departure Program (VED) was one of two project components of the Mali Economic Policy Reform Program that was authorized for $18 million in September 1985 with a Project Assistance Completion Date of December 1988. The program had two formally stated objectives: (1) increasing public sector efficiency through reducing government salary outlays and (2) reinforcing the private sector. The first objective was to be accomplished by providing funding to support the voluntary departure of 600 employees over 2 years, beginning in 1986.

Private sector reinforcement would occur through former public employees establishing small-scale enterprises and private banks and local consulting firms participating in the program. The program comprised three components: a $2.6 million severance pay program; a $1.4 million loan guarantee fund for creation of small-scale enterprises by former public employees, with loans administered by commercial banks; and a $178,000 study fund for Malian consulting firms to prepare investment feasibility dossiers for loan applicants.

The Tunisia Rural Works Program

Between 1987 and 1989, A.I.D. provided a portion of funds from a $57 million PL 480, Title I program to the Tunisian Government to enlarge its Rural Works Program (PCRD). From its inception, the program had dual objectives: (1) to act as a safety net to unemployed workers (especially in construction and industry) and (2) to assist farmers hurt by the 1988-1989 drought. The program was therefore both an attempt at compensation for adjustment and a relief effort. It operated in both urban and rural areas, conducting such civil works as forestry and desertification control, soil and water conservation, improvement and maintenance of public works and archaeological sites, road maintenance, and refurbishing unsound buildings. The program attempted to reach the poor through a self-targeting mechanism that set wages at low levels so that only the poor would apply.

The Madagascar Food for Progress Program

To support rice market liberalization and formation of a rice buffer stock, the Madagascar Food for Progress Program Agreement was signed between the U.S. and Madagascar governments in August 1986. The program was initially to last 3 years. A.I.D. supported buffer-stock operations with 30,000 metric tons of rice. The buffer stock had three purposes: (1) to keep prices within reasonable limits during the lean period; (2) to ensure continued public distribution of rice at official prices to the needy, phasing down sales as domestic market prices stabilized; and (3) to serve as an emergency stock.

Findings

The study found the following strengths and weaknesses in the Mali VED:

The severance pay component was smoothly implemented. Evidence shows that most participants used a sizable portion of their funds for private investment, mainly in self-employment schemes. As much as one quarter of all severance funds may have been used for investment in small-scale enterprises. There is evidence of substantial investment and savings of severance benefits in Ghana as well.

The investment feasibility study component failed. Studies funded under the VED were unable to answer the tough questions normally asked by bankers about potential profitability, thus contributing to a low loan approval rate.

Strong disincentives limited the effective participation of the commercial banking sector in the loan guarantee scheme. The VED program encountered problems endemic to targeted credit programs, such as difficulty enlisting participation of the banking sector. Loans are typically small, whereas administrative costs for loan approval and supervision are typically fixed. At the same time, the average retrenched public servant, lacking experience in private enterprise and a formal credit history, cannot be viewed as a good credit risk.

It is doubtful whether any sustainable lending program could be successful in the CFA (Communant, FinanciŠre Africaine) franc zone. This fact holds true even for established small- and medium-sized enterprises because the Central Bank of the West African States sets standard interest-rate spreads for all member countries, and these often fail to cover real lending costs.

The loan guarantee program was poorly coordinated within the overall macroeconomic policy reform framework for Mali, especially with regard to credit ceilings. If they had wished to lend to VED participants, banks would have had to either pay a penalty for exceeding credit ceilings or remain under ceilings by refusing loans to regular customers.

Major findings related to the Tunisia PCRD revolve around the following issues:

Targeting. The program was reasonably successful at targeting some of those who were in need - for example, the elderly, the unemployed construction workers, and those lacking other alternatives. Several problems, however, detracted from the program's success in targeting these groups, resulting, for example, in the program failing to target women. Also, the self-targeting function of the wage rate was diluted when it was combined with other forms of reimbursement, thus pushing the effective wage above the minimum. The program's effectiveness in geographically targeting those hurt by the economic downturn was also in doubt, because correlation between the geographic distribution of PCRD activities and that of unemployment is weak.

Inadequate monitoring. Most monitoring records concerned inputs rather than outputs. Therefore, it is impossible to draw conclusions regarding either the short- or long-term impact of PCRD activities.

Development impact. The potential long-term impact of PCRD activities in addressing structural unemployment and alleviating poverty is in doubt because of the recurrent cost problems of infrastructure created under the program and the fact that the transfer of skills to the poor was minimal. These problems are mirrored in a number of other public works programs that have been undertaken worldwide.

Policy impact. The Tunisian Government successfully instituted self-help measures concerning adjustment of cereals and fertilizer prices to more closely reflect world prices. Private sector activity also increased in fertilizer marketing. However, it is not possible to isolate the political effectiveness of A.I.D. support in sustaining policy reforms carried out under the adjustment program because the A.I.D. program ran concurrently with efforts by the World Bank, International Monetary Fund, and other donors supporting the reform process. Yet evidence indicates that A.I.D. played a proactive and constructive role in the policy dialogue through its Agricultural Policy Implementation project.

Findings related to the buffer stock funded under the Madagascar Food for Progress Program focus on the following policy and distributional impacts:

The buffer stock scheme suffered from political manipulation. Major rice marketing reforms were carried out, and these stimulated rice production, contained consumer price rises, and encouraged private sector involvement in domestic marketing and importation. To the extent that the buffer stock contributed to maintaining the reform process, A.I.D. may regard PL 480 resources as having been used effectively. To the extent that the scheme promoted good will among voters, the ruling party must view it positively.

No long-term negative impact on rice marketing. Although manipulation of the buffer stock and import policy may have been responsible for generating market uncertainty in the short term, Madagascar's efforts at adjustment continue, and the private rice trade does not appear to have been permanently damaged.

Equity implications are mixed. The buffer stock does not appear to have directly benefited the vast majority of Madagascar's poor. Mostly situated in rural areas, the poor received no buffer stock rice; however, they may have benefited indirectly if PL 480 rice was combined with other imports to lower market prices. In such cases, benefits to the poor were derived from PL 480 additionality.

Implications for A.I.D. Programming

This study raises a number of implications concerning future A.I.D. programming in compensatory programs and social safety nets, which are summarized below.

General Implications

The most important general implication is that activities dealing with compensatory programs and social safety nets are often political. If such activities are properly managed and reasonably cost-effective, they are not necessarily bad; political and efficiency goals are not always mutually exclusive. However, A.I.D. needs to be aware that it can lose control of a program if political criteria overwhelm economic and equity considerations in the decision-making of host governments.

There may also be a pragmatic argument for financing less than ideal programs for the greater good of sustaining the adjustment process. Elements of this line of reasoning are present with regard to both the Mali and Madagascar programs. A.I.D. Missions considering funding compensatory programs or social safety nets need to enter into the design process with open eyes and ask themselves whether in a politically charged climate they will be able to retain sufficient control over the local currency resources used to support these activities.

Blanket recommendations cannot be given about whether A.I.D. should support compensatory and safety net programs during economic reform. The appropriateness of such programs varies from country to country, based on the nature of the adjustment programs pursued; the distributional effects of the adjustment programs; the financial and human resource capability of local governments and resident A.I.D. Missions to carry out safety nets; and their political, administrative, and economic feasibility. Because determinations should be made on a case-by-case basis, Missions should use a decision-tree approach to guide them in identifying target groups and appropriate programs and in assessing feasibility. For a discussion of the major issues to be addressed at each stage of the design process, see the recommendations given in Section 4.

Program-Specific Implications

Severance and retraining. Severance programs should no longer be categorically dismissed as purely political. Lump-sum severance payments may be a cost-effective way to stimulate small-scale entrepreneurial activity in the informal sector, while at the same time serving as a safety net for displaced public workers and their dependents. Monitoring plans should be incorporated into program design to track progress in processing retrenched workers to determine how they fare over a period of several years after leaving the public sector.

Job categories in severance programs should be strategically determined to minimize the potential adverse effects of down-sizing on the delivery of social services. Moreover, program designers should carefully address the need for raising public sector productivity and design severance programs that meet both the service and productivity requirements.

Credit and retraining programs for retrenched workers have less success, as evident from the track record of such programs in Mali and several other countries. Commercial banks consider former civil servants to be poor credit risks, and many developing countries lack the institutional capacity necessary to implement practical and relevant retraining programs.

Labor-intensive public works. In most cases, short-term safety net concerns (reaching as many of the vulnerable as rapidly as possible) and objectives of long-term asset creation (providing skills transfer)cannot be simultaneously achieved through the same program. The two are often mutually exclusive. Based on Mission and host country objectives and local conditions, design teams should explicitly pick one objective or the other. If the teams feel that short- and long-term objectives can be pursued simultaneously, they should provide thorough justification in the design documents.

As a rule, these programs need better monitoring plan activities. If short-term concerns are of the highest priority, plans that focus on inputs will suffice because the activities are essentially relief efforts. In such cases assessments of cost-effectiveness in reaching recipients may be sufficient as economic justification. However, if such programs are justified using a longer term perspective, then more elaborate monitoring plans for determining development impact are needed, including more complete economic and financial cost-benefit analysis. Missions may need to be wary of supporting national public works programs if they feel that geographic targeting for cost-effectiveness and equity is important. Host governments tend to distribute resources to nationwide programs evenly across regions (or unevenly if regionalism is evident, with allocations based on ethnic considerations). If the programs have merit, Missions may consider contributing to program activities in selected regions and then ensuring, through end-use surveys, for example, that A.I.D.-generated local currencies actually went to those regions.

Use of PL 480 for Policy Reform and Safety Nets

Although food aid can serve a useful purpose in policy dialogue and safety nets, it might not offer as much flexibility for promoting policy dialogue as other forms of nonproject assistance for two reasons.

First, the usefulness of food aid can vary yearly, depending on changes in local production volumes. Second, food aid cannot be easily discontinued if a recipient government fails to meet policy conditionality. If local currency proceeds are programmed to meet local costs of A.I.D. project assistance, Missions may find it difficult to cut funding when conditionality remains unmet. Although other forms of nonproject assistance also face this problem, the difficulty is especially apparent with food aid because cutting food assistance can expose A.I.D. to political charges of using food as a weapon.

In sum, policy-conditioned food aid can play a useful role but is most effective when combined with other Mission portfolio resources to ensure some flexibility.

Additional Information Needs

The study identified several areas that need further research, including the following:

Severance programs. What potential do severance programs have in generating small-scale enterprises, and what determines the success or failure of public servants after they leave public employment? Although streamlining public sector employment figures prominently in most adjustment programs, the potential developmental impact of severance programs is generally ignored. This neglect probably results from donors' skeptical view of severance programs, which they consider at best a necessary evil to be supported on a one-time basis to make the more difficult elements of adjustment programs more palatable to the host governments and their constituents. Donors, therefore, have little interest in examining severance programs in the same way they would more standard types of development interventions.

Voluntary departure programs. Determining the approximate amount of severance pay required to induce enough people to leave would greatly increase the cost-effectiveness of these programs.

Retraining programs. The track record of retraining programs is generally poor. Identifying cost-effective strategies for designing such programs to better meet the needs of retrenched workers is a major challenge.

Public works programs. Monitoring public works programs has generally been poor. More effort must be focused on identifying cost-effective monitoring systems for assessing the economic effect of individual infrastructure investments created under public works programs. In addition, followup evaluations should be carried out several years after completion of the infrastructure.

A.I.D.'s experience in Latin America. Although the highest concentration of A.I.D. severance programs is in Central America, no analyses of this experience could be found. Missions carrying out severance programs should develop monitoring plans that include tracer surveys to elicit opinions from participants about how well the program is being conducted and to track former public employees' uses of severance funds. Missions that recently supported such programs should also carry out tracer surveys if reasonably reliable lists of program participants are available.

Eastern Europe. A.I.D. intervention strategies in Eastern Europe are still in the formative stages. Although resource needs are great and A.I.D. resources are limited, the Agency should give more thought to the feasibility of launching more safety net activities in this region. Eastern Europe is viewed as a testing ground for the larger challenge of administering aid to the newly independent states of the former Soviet Union, thus adding to the importance of launching pilot programs in Eastern Europe and monitoring them carefully.

Documentation needs. Nonproject assistance activities pose special informational challenges to central A.I.D. bureaus. Many of the development activities carried out through nonproject assistance are poorly documented, both in the initial approval documents and in subsequent evaluations. If documents exist, they never find their way to a central A.I.D. filing system. Although

Program Assistance Approval Documents address in detail the foreseen development impact of the dollars to be expended, they seldom discuss the expected impact of local currency expenditures. To maintain Mission flexibility and a degree of decentralized decision-making, it is best to continue to allow Missions some leeway at the program design stage. However, once actual local currency uses are determined, A.I.D. records and evaluations of these uses should be transmitted to a central database in Washington to enhance the Agency's institutional memory.

Glossary

A.I.D. Agency for International Development
ASAL Agricultural Sector Adjustment Loan (World Bank)
BCEAO Central Bank of the West African States
CFAF Communant, FinanciŠre Africaine or CFA franc, local currency
CFNPP Cornell Food and Nutrition Policy Program
CGDR General Commissariat for Regional Development
EPRP Mali Economic Policy Reform Program
ESF Economic Support Fund
FED European Development Fund
FFP Madagascar Food for Progress Program
FMG Malagasy franc (Madagascar)
FY fiscal year
IMF International Monetary Fund
LAC Bureau for Latin America and the Caribbean
NGO nongovernmental organization
OPEC Organization of Petroleum Exporting Countries
OECD Organization for Economic Cooperation and Development
PAAD Program Assistance Approval Document
PAIP Program Assistance Identification Paper
PAMSCAD Ghana Programme of Actions to Mitigate the Social Costs of Adjustment
PCRD Tunisia Rural Works Program
PL Public Law
TA technical assistance
VED Voluntary Early Departure Program (Mali)
WFP World Food Programme

1 Introduction

Background

In the mid-1980s, developing country governments and donor agencies became increasingly concerned about the social costs of adjustment. There was a perception that, at least in the short term, adverse impacts of adjustment were borne disproportionately by some groups, especially the poor. In response, governments and donors initiated an array of programs designed to compensate and assist the losers from adjustment thereby smoothing the transition to economic growth.

This is the second desk study funded by the Agency for

International Development (A.I.D.) to assess compensatory or safety net programs carried out within the context of adjustment. {Footnote 1} The first study uses a case study approach to identify lessons learned from the relatively brief experience of the World Bank and other prominent donors in designing and implementing such compensatory programs in Latin America and Africa. Among the study's conclusions are the following:

For many of these social programs, stating that "redressing the social costs of adjustment" is the prime objective is inaccurate. Little effort was made to identify specific socioeconomic groups suffering from adjustment and then target them with interventions.

Sufficient consideration has not always been given to the cost-effectiveness of these programs or to possible alternative uses of resources in achieving stated objectives.

A number of the programs have not been successful because of a lack of focus and an overcomplicated design that renders coordination among government agencies, donors, and project participants exceedingly difficult.

If effectively implemented, these programs have a role to play in lending political legitimacy to the adjustment process.

Study Approach and Objectives

The first study dealt in general terms with donors' experience (primarily the World Bank's) in implementing a wide array of activities labeled (sometimes inaccurately) as compensatory programs. It also focused extensively on organizational issues for implementing compensatory programs. {Footnote 2} The focus of this follow-on study has been narrowed in three ways: first, only the A.I.D. experience is considered; second, only a few types of compensatory programs are covered; and third, operational aspects of A.I.D. program design and implementation are examined in greater detail.

The follow-on study examines country case studies to assess specific types of interventions: financing of severance pay and related programs for severed public sector workers in Mali; public employment programs in Tunisia; and the use of food aid as a transitional tool from statist to more free-market approaches to food policy in Madagascar. As apparent from the discussion in Section 2, A.I.D. programs in these areas are limited, and evaluations even scarcer. From the beginning, the number of available programs was narrowed based on the following criteria: programs had to be categorized either as safety nets or compensatory; they had to be undertaken during a period of adjustment or major policy reform; at least part of their funding had to have come from A.I.D.; and they had to have been evaluated.

This study attempts to synthesize information from the literature and from interviews to review A.I.D.'s experience in designing and implementing cost-effective interventions for increasing the equity and sustainability of adjustment.

More specific objectives include the following:

Assessing the cost-effectiveness and the social and political contributions of various interventions to the adjustment process

Identifying strengths and weaknesses in the design and implementation of these programs, especially in terms of A.I.D. policy and operational issues

Formulating recommendations targeted to A.I.D. decision-makers on the nature of future commitments to these types of interventions

Organization of the Study

Section 2 provides a brief discussion of the definitional problems inherent in categorizing compensatory and social safety net programs and presents an overview of the countries in which A.I.D. has either implemented social safety net programs or has them on the drawing board. This discussion is organized by region, and issues specific to each region are highlighted.
The heart of the study is contained in Section 3, which presents case studies of the Mali Voluntary Early Departure Program (VED), the Tunisia Rural Works Program (PCRD), and the Madagascar Food for Progress (FFP) Program.

The final section draws together findings and conclusions from the various case studies and regional discussions to highlight major points relevant for assessing the pros and cons of future A.I.D. involvement in these efforts. The study recommends a decision-tree approach for determining the appropriateness of launching safety net or compensatory programs and makes recommendations for future studies and data requirements.

2 Overview of A.I.D. Involvement in Safety Net Programs

Defining Compensatory and Safety Net Programs

The principal theme of the first study (Kingsbury 1994) is that the failure to clarify what is meant by compensatory programs has led to muddled thinking. The terms "social safety net programs" and "compensatory programs" are sometimes used interchangeably. Similarly "redressing" or "mitigating" the "social costs of adjustment" are terms used synonomously with "poverty alleviation." The result is often a lack of clearly defined objectives for the interventions, the stated purpose of which is to address problems encountered during the transition from stagnation to economic growth. Moreover, the uncritical mixing of these terms amounts to an implicit admission that structural adjustment is responsible for poverty when, in fact, the inappropriate policies pursued before adjustment are usually the main cause.

For the purpose of this study, compensatory programs are defined as programs intended to compensate people for short-term negative effects specifically caused by economic reform. In theory, designing such programs involves identifying socioeconomic groups that specific reform measures might adversely affect, assessing how, groups would be hurt by those reforms, and developing targeted interventions to assist them during the transition. Social safety net programs are more general than compensatory programs and are not necessarily related to compensating for losses from adjustment. In a number of Latin American, Asian, and formerly socialist countries, social safety net programs have been around for 40 years or more. Although such programs have a much shorter history in Sub-Saharan Africa, many public social sector interventions in that region predate structural adjustment. In most cases, the official justification for undertaking social safety net programs has been to alleviate poverty.

A fairly wide array of programs are labeled compensatory (Table 1), and these fall under three broad categories: employment creation and public works for those perceived to have been displaced by reform measures, access to publicly provided social services (health, education, and community development) for the most vulnerable, and improved targeting of subsidies to the most vulnerable, while attempting to curtail access to subsidies of the relatively well-to-do. Programs initiated under the banner of redressing the social costs of adjustment include credit programs; job training; severance pay; agricultural resettlement; social service support to nongovernmental organizations (NGOs) and local government in the form of medical supplies, health extension, educational supplies, school feeding programs, vaccination campaigns, and preschool feeding programs; and targeted subsidies for food and other basic commodities. Although many kinds of programs have been implemented to address the social costs of adjustment, their ability to reduce the negative impacts of adjustment is questionable. As Table 1 illustrates, the only unambiguous compensatory measures in the list given above are severance pay and other employment creation programs that target laidoff public and quasi-public employees. Other measures, such as improved targeting of food subsidies and feeding programs, inhabit a gray area where, if the context is right (if they reach those who have actually been hurt by adjustment), they are compensatory or serve as legitimate safety nets for the vulnerable.

Certain interventions do not enter the gray area. Although laudable in other contexts, support to NGOs and local government for institution building and decentralization does not mitigate the potential negative effects of adjustment, especially as short-term measures. More often if such institutions are weak, using them to implement short-term programs will lead to delays and will frustrate potential program participants.

This study examines several compensatory programs that fall under the unambiguous classification and a few that fall in the gray areas. It does not address programs considered unrelated to mitigating the potential negative effects of adjustment.

A.I.D. Activities and Regional Issues

Through interviews with A.I.D. regional bureau staff and the collection of documents, an inventory has been assembled of A.I.D.-supported compensatory and social safety net programs related to policy reform (see Table 2). The thoroughness of this effort has been hampered by time constraints and the fact that A.I.D. decisions about program design, implementation, and evaluation emanate from the field not from Washington. Although decentralized decision-making is preferable from a developmental standpoint, it makes gathering information difficult.

The problem of decentralization is compounded because most, if not all, compensatory and safety net programs are supported with local currencies and may only be elements of broader, nonproject assistance programs. Most Program Assistance Approval Documents (PAADs) {Footnote 3} focus on describing recent macropolicy events and identifying and justifying policy conditionality and the procedures for disbursing dollars and local currency once policy conditions have been met. They provide little discussion of how local currencies are to be used and of their expected impacts. Because macropolicy and procedural questions are underscored in most PAADs, they also receive the greatest attention in most evaluations of nonproject assistance. By contrast, it is much more straightforward to identify the content of project assistance activities from a review of Project Papers and subsequent evaluations.

Much of the data in Table 2 are pulled from the Congressional Presentation on planned activities and programming levels that A.I.D. is required to submit each year to the U.S. Congress.

Funding levels and years of program implementation should be read with caution because some of these numbers are prospective rather than actual. In addition, fiscal years (FYs) of obligation do not always coincide with actual implementation years. Because nearly all of the activities are financed with local currency and because a single nonproject assistance program often supports several local-currency activities, in most cases it has been impossible to separate local currencies used for the program from the overall nonproject assistance amount.

Table 2 shows that the number of compensatory and social safety net program activities is small, considering the size of A.I.D. and its presence in most developing countries. There are several reasons for this.

First, the number of compensatory and safety net programs may be greater, depending on how compensatory and safety net programs are defined. As Table 1 shows, most activities enter the gray area when the lines between compensation, social safety net, and a third feature blur. For example, using programmed food aid to ease the transition from tightly controlled agricultural markets to liberalization can possibly be an element in nearly all policy-conditioned Public Law (PL) 480 programs. Broadening this further, if the rationale for nonproject assistance is "buying" policy reform with budgetary support, then all such assistance programs with a policy element are compensatory (although all are not necessarily safety nets), since recipient governments are being "compensated" for taking actions that are often politically painful.

Second, the idea of providing safety nets during adjustment is a new one, which gained a high profile only in 1987 with the publication of Adjustment With A Human Face by Cornia et al. (1987). Donors have only recently begun to design and implement projects and programs that attempt to mitigate some of the adverse effects of adjustment.

Third, many of these programs (especially social investment funds) involve donors pledging money to a common pool. Increasingly, however, A.I.D., under pressure from the U.S. Congress and the General Accounting Office, is discouraging this practice, because commingling of funds creates difficulties for Missions and auditors in determining whether A.I.D. resources have been used properly.

Finally, and perhaps most significant, certain A.I.D. regional bureaus appear to have consciously discouraged compensatory and safety net programs, essentially viewing them as a temporary development fad. To summarize their argument: if A.I.D.'s biggest priority is helping the poor lift themselves out of poverty, adjustment through broad-based growth is the most appropriate, sustainable, and cost-effective strategy for achieving this goal. Devoting significant financial and management resources to other uses diverts effort and attention from this fundamental principle. Inappropriate economic policies and mis- guided social investments prior to adjustment - not the adjustment process itself - explain why the poor have remained poor. In addition, given that A.I.D.'s resources are more limited than the World Bank's, and the belief that A.I.D.'s comparative advantage may lie elsewhere, the Agency does not give as high a priority to addressing the social costs of adjustment as the World Bank and several other multilateral and bilateral donors do.

Latin America

The highest concentration of A.I.D.-supported programs for laidoff public and parastatal workers is in Latin America and the Caribbean. In Bolivia and Honduras, A.I.D. is also one of several donors cofinancing social funds. The main reason for this concentration may be the predominant political role of the United States in the region, particularly in Central America, where A.I.D. has far greater nonproject assistance resources available. Moreover, because of the high U.S. profile in the region, the U.S. Department of State and A.I.D. may sometimes have to take the lead in addressing the political factors related to adjustment programs.

Despite the relatively high concentration of severance pay and retraining programs in Central America, most programs are either new or still under design. As a result, these programs lack evaluations for inclusion as case studies in this report.

Africa

A.I.D.'s profile is lower in Sub-Saharan Africa. Consequently, diplomatic political pressures are not as great. Although A.I.D. resources are substantial in Africa, with cases in which A.I.D. is the lead donor in key sectors, World Bank resources, and often those of the French, tend to dwarf A.I.D. resources, making the World Bank the obvious candidate to take the lead in pursuing adjustment programs and associated measures, such as funding social programs.

The regional bureaus' argument against compensatory and social safety net programs is perhaps most commonly expressed in the Africa Bureau. Although quantitative data are scarce, evidence from a number of Sub-Saharan countries indicates that adjustment has actually benefited the poor and other socioeconomic groups, with elites, who reaped economic rents prior to adjustment, the losers.{Footnote 4}

Near East

The Near East Bureau has been fairly active in funding safety net programs for at least three reasons. First, PL 480 and Economic Support Fund (ESF) monies have been plentiful especially in North Africa. Egypt and Morocco are among the largest recipients of programmed local currency in the world, and safety net programs are far more dependent on local currency than on dollar funding. Second, and closely linked to the first, the U.S. Government is very sensitive to political developments in the Near East, making A.I.D. more apt to support such programs, perhaps more for political than economic reasons. Third, many of these countries, such as Tunisia and Morocco, already have a relatively high capability of supporting social safety net programs. As the Tunisian case study makes clear, A.I.D. decided to support a public employment program that had been established on a large scale in the 1960s.

Eastern Europe

In Eastern Europe, the only A.I.D.-supported compensatory or social safety net interventions identified through interviews and documents were the following: a Commodity Import Program in Hungary, where local currency was used to ease the burden of increased energy prices on various means-tested groups; an FY 1990 U.S. Department of Labor program to assist the Polish Government in establishing job counseling and retraining centers and unemployment insurance; and a skills retraining program in Hungary begun in FY 1991. {Footnote 5} For the Commodity Import Program in Hungary, A.I.D. provided local currency equal to $10 million to pensioners and other low-income groups during the 1991-1992 winter to mitigate any adverse effect of the removal of heavy energy subsidies, which were a legacy of the Communist era.

The program was for the 1991-1992 winter only.

The Eastern Europe Bureau does not foresee allocating substantial resources to social safety net programs. This inclination has more to do with the bureau's perception of A.I.D.'s comparative advantage and limited nonproject assistance resources than a belief that such programs are unjustified for the region. A.I.D. has apparently decided that its comparative advantage in Eastern Europe lies with providing technical assistance for democratization and for developing the private sector. Because nonproject assistance and staff resources are very limited and the costs of making a major impact in social safety net areas are high, A.I.D. has tended to leave such interventions to the larger multilateral organizations. Although direct-hire staff working on the 10 countries of Eastern Europe - Albania, Bulgaria, Czechoslovakia, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, and Yugoslavia - has grown substantially (from 17 in FY 1991 to 88 requested for FY 1993, 37 of whom are in field Missions [Congressional Presentation FY 1993]), their numbers remain severely limited.

Although cost-effective targeting is often a major headache in countries in other regions, it is less of a problem for donors wishing to undertake safety net programs in Eastern Europe. Whatever the shortcomings of communist bureaucracies in these nations, they were very good at keeping detailed records on occupations, wages, and so on. Therefore, means testing for establishing criteria and identifying participants in the Hungary Commodity Import Program was a straightforward task.

Asia

Because the structural adjustment programs of the 1980s were largely confined to Latin America and Africa, few A.I.D.-funded compensatory or social safety net programs were implemented in Asia in a policy reform context. For the most part, Asian countries - in particular the Asian "tigers" - pursued growth-oriented macro-economic policies during the 1980s and did not have to turn to adjustment programs. Some, such as India, were able to postpone adjustment until very recently. Although Asia has the longest and most substantial involvement with PL 480 programs, few of these programs have been undertaken in the context of policy reform.

3 Case Studies of the A.I.D. Experience

This section examines the experience that A.I.D. has had with compensatory and social safety net programs through a review of the following three country case studies: the Voluntary Early Departure (VED) Program in Mali, the Rural Works Program (PCRD) in Tunisia, and the Food for Progress (FFP) Program in Madagascar. {Footnote 6} The programs of the three case studies were selected based on the following four questions: (1) Could the programs be categorized as safety net or compensatory? (2) Were the programs undertaken during a period of adjustment or major policy reform? (3) Had A.I.D. provided at least part of the funding? and (4) Had the programs been evaluated?

The Mali Voluntary Early Departure Program

A.I.D.'s experience with purely compensatory programs, such as severance pay, retraining, and credit is limited, especially in Africa. However, because the Mali VED attempted to combine all three components, the successes and failures of the program as an integrated package can be observed. {Footnote 7} The program also was not fundamentally flawed from the beginning with the types of cheap credit schemes that have a demonstrably dismal track record throughout the world. And, by many accounts, since the early 1980s the Government of Mali has been one of the most consistently committed in Africa to structural reform. The program, therefore, has not suffered from lack of sustained official commitment.

Background and Program Elements

The VED was one of two projected components of the Mali Economic Policy Reform Program (EPRP), which was authorized in September 1985 for $18 million and had a December 1988 program assistance completion date. The other projected component provided technical assistance (TA) in computerizing the various administrative operations of the Ministry of Finance and Commerce. This TA component was authorized for $1.3 million, and the VED was financed with local currency proceeds. The EPRP incorporated policy conditionality in the following areas: price decontrol, tax structure reform and administrative improvement, commercial code revision, import and export procedures, liberalization and public sector efficiency. In part, this last policy objective was to be achieved by compressing public payrolls through the imposition of hiring ceilings, voluntary departure of public employees, and a higher ratio of material procurement expenses to purely personnel-related expenses. {Footnote 8}

The VED had two formal objectives: increasing public sector efficiency through reductions in government salary outlays and reinforcing the private sector. The VED was to accomplish the first objective by providing funding to support the voluntary departure of 600 public employees over 2 years, beginning in 1986. {Footnote 9} It would achieve the second objective, private sector reinforcement, by helping former public employees establish small-scale enterprises and through the participation of private banks and local consulting firms in the program.

The program comprised the following three components:

A severance pay program of benefits to those volunteering to leave, with funding of approximately $2.6 million {Footnote 10}

A loan guarantee fund of $1.4 million for former public employees to create small-scale enterprises, with loans administered by the commercial banking sector

A study fund of $178,000 for local consulting firms to prepare dossiers for loan applicants on the feasibility of their potential investment

Program Implementation

The severance pay component. To become a candidate for the VED volunteers had to have been publicly employed for a minimum of 5 years and be at least 5 years from retirement. No positions were exempt from the program. {Footnote 11} Candidates were accepted on the basis of the order of receipt of applications and distribution of departure slots by level of seniority. This approach ensured that funds would not run out before the program had reached the target of 600 volunteers.

Participants in the program received severance pay roughly equal to 3 to 4 years of salary and retirement benefits (either a lump sum or a full pension, depending on age). The number of applicants exceeded the number of approvals by almost two to one. Of approximately 1,200 applications, 644 were accepted and processed. {Footnote 12} If the cost of the severance- and retirement-pay component was roughly $2.6 million, the average amount volunteers received was about $4,000. {Footnote 13}

The majority of the volunteers accepted were teachers (53 percent). An additional 14 percent were public works employees, 12 percent were agricultural and livestock parastatal employees, and 21 percent came from a variety of other sectors. In addition, with 75 percent of approved volunteers from Bamako, there was a strong bias favoring the capital city. About one-sixth of the participants were women (Rugh et al. 1990).

The loan guarantee fund component. To stimulate private sector investment by volunteers, a loan guarantee fund was established as an integral part of the VED. Loan amounts were allowable up to about $17,500 for borrowers who could produce a bankable investment idea. The $1.4 million for the fund was divided equally among five commercial banks, and interest rates were those prevailing for other commercial lending (Seydi and Solomon 1988). A.I.D. guaranteed the loans up to 50 percent, to give banks sufficient incentive to perform well in the program - short of A.I.D. taking on 100 percent of the risk.

By all accounts, the loan guarantee fund fell far short of expectations. Over the life of the program, only six loans were approved through commercial banks for departing public employees; with a $17,500 limit per loan, 80 loans were theoretically possible. Fourteen volunteers received loans under a small-scale enterprise credit program funded by the European Development Fund (FED). The FED funding mechanism was more attractive from the viewpoint of the commercial banks because it was 100 percent guaranteed. However, it quickly ran into serious replenishment problems because of high nonpayment rates. Many approved loans had gone to young university graduates whose projects failed because of inexperience (Seydi and Solomon 1988).

Major reasons for the failure of the loan guarantee fund are discussed in the following subsection.

The study fund component. The study fund component of the VED contributed to the failure of the loan guarantee fund. Over the life of the program, only 55 feasibility studies were completed, and these provided little useful input to the banks in loan processing.

According to Diallo and Elliot (1989), the studies were of uneven quality. Many of them emphasized the potential of the projects to generate employment and local value-added, while not providing the kinds of market analysis entrepreneurs required. In other words, the studies reflected economic policy more than solid financial investment analyses. This weakness can be attributed in part to limited available data, but more to a lack of strong analytical capability on the part of the local consulting firms in private sector business operations.

The most important result of this weakness was that potential investors, already relatively high risks in the eyes of bankers, came to the banks unprepared, greatly lowering the probability of loan approval.

Strengths, Weaknesses, and Evidence on Impact

The strengths and weaknesses of the three components, and the reasons for their success and failure are easy to identify. Although demand for participation in the severance pay component was high, and processing of applicants for voluntary departure proceeded smoothly and in transparent fashion, the loan guarantee fund and study fund components generally failed. By early 1989, evaluators were calling for elimination of the loan guarantee fund and the study fund components, so that savings could be rolled into supporting more departures (Diallo and Elliot 1989).

The loan guarantee fund component. The VED feasibility studies were not able to adequately answer the tough questions bankers usually ask about the potential profitability of an investment. This inability contributed to the low rate of loan approvals; however, more serious reasons may have existed contributing to the failure of the loan guarantee fund. What remains unclear is the real incentives for the commercial banking sector to participate in the loan guarantee scheme. In contrast, several strong disincentives exist.

First, targeted credit programs to small-scale enterprises, such as the loan guarantee and study fund, suffer from a number of endemic problems in relation to banking sector participation. Loans through these programs are typically small, whereas administrative costs by banks to approve and supervise loans are typically fixed. At the same time, the typical VED participant is not a good credit risk, either because of lack of experience in private enterprise or the absence of any previous formal credit history. Donors who typically try to guarantee some portion of the loan program (in this case 50 percent by A.I.D.) introduce a dilemma. Banks generally do not wish to risk any of their money in these programs, unless they are free to raise interest rates (which is rarely an available option for political reasons). Therefore, a guarantee falling short of 100 percent reduces their interest. However, if loans are 100 percent guaranteed, the banks have no incentive to vet applications and perform the necessary followup. This is a classic example of what economists refer to as "moral hazard": a situation wherein insurance coverage leads to negligent behavior by the insured party.

Second, it is doubtful whether any sustainable lending program could be successful in the CFA zone - even to established small and medium entrepreneurs. The Central Bank of the West African States (BCEAO) sets standard interest rates for all member countries. To a large extent, these rates are politically determined, low by free market standards, and favorable to borrowers with enough political clout to gain access to rationed credit. {Footnote 14} Such a system is skewed toward short-term, rapid-turnover operations with established customers (or those forced on lenders by overbearing governments) and very high fees for administrative operations. Unless provided by a donor, medium- and long-term credit is nonexistent. Unfortunately, this is just the type of credit needed for establishing small-scale enterprises.

Third, the loan guarantee fund was poorly coordinated within the overall framework of Malian macroeconomic policy reform. One element of the International Monetary Fund's (IMF) stabilization package involved strict imposition of credit ceilings, which the French central bank for CFA zone countries also requires. In initial negotiations during program design, Malian and IMF authorities apparently assured the A.I.D. Mission that monies for loan guarantees would be exempt from these ceilings because the EPRP local currencies were additional and should not have contributed to inflation or real currency depreciation. However, the waiver never came through. {Footnote 15} Therefore, any loans to VED participants would force banks to either pay a penalty to the central bank for exceeding credit limits or to remain within credit limits, reducing lending to regular clients with a proven track record of submitting bankable dossiers. Although the amount of money involved was not substantial in relation to overall domestic credit, the fund program was implemented during a period in which available credit was tightening. From 1986 to 1988, private domestic credit supply fell by one-third in U.S. dollars and by more than 40 percent in local currency (IMF 1991). Given this climate, asking banks to either pay penalties or deny credit to regular customers greatly reduced bank sector interest in aggressively vetting VED loan applications.

In short, a combination of an unfavorable macroeconomic environment and the problems associated with credit schemes that are narrowly targeted to individuals with little or no prior formal entrepreneurial experience made successful participation of the private banking sector in the loan guarantee fund program unlikely. The severance pay component. In March and April 1988, a survey was conducted to determine VED participant attributes, their attitudes about the program, and their private sector activities. This survey was conducted 9 months after the first wave of volunteers had left the public sector and 5 months before the second wave was to leave. Interviews of 107 participants were conducted, 79 in Bamako and 28 in other regions of the country (Seydi and Solomon 1988). The survey reveals some interesting information, although it is obviously of limited value because it was done so early in the fund program, covered only a subset of the first group of volunteers, and was never followed up. Responses to several key questions appear in Table 3. Most respondents had been considering leaving the public sector prior to the VED, and the offer of severance pay provided the necessary incentive. The questionnaire asked individuals only for their primary motivation for leaving, but it can reasonably be presumed that a combination of reasons led to their decisions to leave. Unfortunately, no information exists on the incidence of the respondents moonlighting prior to leaving public employment. One could hypothesize that such prior experience in the private sector might increase the probability of their success. Only 9 of the 107 respondents listed parallel activities as their primary reason for leaving, but there is reason to suspect that moonlighting was fairly common in Mali, especially after delays of several months in the payment of salaries became commonplace. Despite the failure of the loan guarantee fund program, the overwhelming majority of respondents (84 percent) claimed to have used a portion of funds for private investment, mainly in self-employment schemes. The majority of these (46 percent) were in trade because of the quick turnover of capital in trade, the relatively small amount of initial capital required, and probably the lack of expertise by respondents in other areas.

Most investments were less than $10,000. Although it is not possible to determine how much of the severance and retirement benefits were invested versus consumed, the survey provides evidence that investment may have been substantial. A simple calculation leads to the conclusion that about one quarter of severance and retirement benefits may have been invested. {Footnote 16} However, no attempt has been made to verify the statistical validity of the sampling procedure used in the VED survey.

It is not possible to determine investment success rates because of the brief time span from inception of the VED to implementation of the survey. In the survey, 88 percent of the participants noted the lack of a training component as a major shortcoming of the program, but the track record on training programs implemented in the context of severance programs is not good. Limited time and interest and the perceived quality of training were reasons cited for the failure of such efforts in Senegal (Kingsbury 1994); and lax implementation was a reason cited in Ghana (Alderman et al. 1992; de Merode 1991). Given the roughly similar capabilities of local training institutions in Mali, the question arises whether such a component would have been worth the effort and expense. Rugh et al. (1990) are not too sanguine on the potential for creating successful businesses, given the absence of training and the bleak economic outlook for Mali. However, picking up private sector experience through moonlighting during civil service employment can improve workers' chances for business survival once they leave the public sector.

A tracer survey conducted by the Cornell Food and Nutrition Policy Program (CFNPP) produced evidence of substantial investment and savings of severance benefits in Ghana. The survey had a sample size of more than 500 and included interviews with some respondents who had left the public sector as many as 4 years before. It was therefore probably the most detailed and rigorous tracer survey to date on the subject of redeployed public employees. According to Alderman et al. (1992), savings and investment are estimated to represent 56 percent of severance pay expenditure (see Table 4). Major investment items include business equipment (19 percent), real estate purchase and construction (12 percent total), and deposit of funds in savings accounts (13 percent).

Once again, it is not possible to determine the survival rate of Ghanaian businesses started or continued with severance funds. However, severe erosion of morale and real salary levels had turned moonlighting into the primary source of income for many public employees prior to initiation of the severance program. According to de Merode (1991), real public sector wages in Ghana fell by 10 percent per year between 1975 and 1983. That these public employees were largely fending for themselves before retrenchment may have improved their chance of business survival after retrenchment.

With evidence that a substantial amount of severance funds was invested in small-scale enterprises, it is ironic that the Ghanaian Government was unable to convince any donor to participate. At the same time, at least 13 multilateral and bilateral donors agreed to underwrite the $96.3 million Programme of Actions to Mitigate the Social Costs of Adjustment (PAMSCAD), which many observers viewed as a failure because of its lack of focus and inefficiency in getting funds to supposed beneficiaries (Kingsbury 1994).

Observers of the Mali program differ in opinion regarding its cost-effectiveness. Diallo and Elliot (1989) estimate the internal rate of return conservatively at 12 to 15 percent, when the present value of VED costs were set against the present value of projected public budget savings. Assuming a discount rate of 10 percent, this yields modest positive returns. With a total public sector wage bill of about $100 million per year before the VED, annual savings from severing 600 employees were initially estimated at $1.5 million through the mid-1990s, tapering to slightly less than $1 million and eventually disappearing as attrition occurred. Actual savings were slightly less but still resulted in positive returns.

On the other hand, in a midterm evaluation of the EPRP, Hermann and Gordon (1987) point out that cost savings from the VED are relatively minor in comparison with savings generated by rigorously enforcing hiring ceilings and allowing attrition to run its course. They point out that in 1985, the last year before

the EPRP, the Malian Government recruitment budget was $2.6 million, and 1,857 new hires joined the public rolls. This fell to $2.3 million and 1,138 new hires in 1986, $1.9 million and 746 in 1987, and $1.1 million and 350 to 500 in 1988. Using 1985 as the base year, the results show a cumulative reduction of roughly 3,000 workers and savings of $4.9 million, before attrition. Attrition of approximately 1,000 employees per year increases these savings. In contrast to the VED, there are no up-front financial costs related to maintaining hiring ceilings.
However, Hermann and Gordon (1987) go on to endorse continuation of the VED, largely for political reasons. They claim that A.I.D. support to the VED provided impetus to the Malian Government to meet the conditions for EPRP first tranche disbursement.

Therefore, the VED had a payoff related to adoption of the full package of reforms. In addition, its popularity with the Malian Government provides leverage for continued adherence to the hiring ceilings that Hermann and Gordon (1987) maintain result in the most significant cost savings. Hermann and Gordon (1987) also view positively the potential role of the VED in generating small-scale enterprise.

Some lessons from the A.I.D. experience with severance pay programs in Mali are clear and appear corroborated by the experience of other countries. First, credit programs for retrenched workers are fraught with problems and have very little scope for success. Many of these programs are little more than outlets for cronyism, with heavy subsidies and loans granted largely on political criteria (see Kingsbury 1994, on Senegal). Because commercial banks administered the Mali loan guarantee fund, these common problems were absent; however, incentives to lend with speed and integrity were absent for private bankers, and it is unclear how incentives can be introduced. Second, efforts at skills transfer to retrenched public employees-either through retraining or feasibility studies (as offered in Mali)-are management intensive and often yield unsatisfactory results.

There has been little success elsewhere in these two domains. Severance programs in Ghana, Guinea, and The Gambia all included credit and outplacement subcomponents. All suffered from low loan repayment rates and trained a very modest percentage of former public employees (de Merode 1991). {Footnote 17}

Designing retraining programs to meet the needs of retrenched workers and to be cost-effective is a major challenge. A recent World Bank paper (Leigh 1992) presents some potentially useful lessons from the Organization of Economic Cooperation and Development (OECD) countries. Links to prospective employers need to be developed to ensure that trainees obtain marketable skills. Training programs should seek to minimize foregone earnings of trainees, and systems need to be developed so that training providers are held accountable for success and failure. Since not all displaced workers require retraining, placement services may be all that is required for some. And developing permanent retraining institutions would be preferable to ad hoc or temporary ones.

A third lesson from the A.I.D. experience with severance pay programs in Mali is that lump-sum severance payments may be a cost-effective way to stimulate small-scale private entrepreneurial activity. This approach may be especially applicable in countries where pay scales have become seriously eroded prior to adjustment and moonlighting has become commonplace among those who leave - either voluntarily or involuntarily.

However, many questions remain unanswered. Most important, What is the potential of severance programs to generate small-scale enterprises, and what are the determinants of the success or failure of the new entrepreneurs after they leave public employment? Although the streamlining of public sector employment is prominent in most adjustment programs, only two tracer surveys of former government workers were uncovered (Ghana and Mali). In all likelihood, this dearth of information is the result of donors' skeptical view of severance programs. Donors consider these programs a necessary evil to be supported on a one-time basis in order to make the less attractive elements of adjustment programs more acceptable to the host country. They thus have little interest in examining them in the same way they would more standard types of development interventions.

Another question concerns the effect of reducing the number of teachers in the Malian public education system. One potentially disturbing feature of the VED was the high number of teachers (53 percent of participants or 341 teachers) who were allowed to participate. As noted previously, programs in other countries often exempted certain categories of employees from both voluntary and involuntary programs. Teachers were among those most commonly exempted.

To the extent possible, the choice of job categories for inclusion or exclusion in such programs should be strategic to minimize the potential negative effects of downsizing on social service delivery. Ideally, such a strategic decision would involve identifying the types and levels of skills necessary to improve public sector productivity on a sector-by-sector basis, assessing skills of current employees, and devising incentives (including better pay) to keep and upgrade skills of qualified employees, to recruit new qualified employees to fill gaps, and to remove those who are not qualified. In reality, such a task takes substantial time and resources - both in short supply during periods of major adjustment. Therefore, a compromise may be required, with assessments of sectoral human resource needs conducted less rigorously and in some sectors not analyzed at all. Nevertheless, efforts should be made to move beyond simple blanket exclusions of certain sectors from severance programs before addressing the issue of how productivity of current workers in those sectors can be raised (or move some workers from low-priority sectors to more important ones).

Another question that should be examined is the cost-effectiveness of voluntary departure programs: What is the approximate amount of severance pay required to induce just the right number of people to leave? {Footnote 18} The benefits offered in Mali seem very generous in comparison with what was offered in some other countries. {Footnote 19} Because there were almost two applicants for every VED position, participation had to be rationed. Therefore, benefits could have been reduced to induce the same number or more of the employees to leave. The reduced benefits would have increased the cost-effectiveness of the program, both in the initial cash outlays for the program and the future stream of public budget savings from having more workers off the payrolls.

In conclusion, more work is needed on the potential development impact of severance programs and their cost-effectiveness relative to other measures, such as hiring ceilings for streamlining public payrolls and redressing the social costs of adjustment. At the very least, they should no longer be categorically dismissed as purely political. Monitoring plans should be incorporated into program designs to track progress in processing retrenched workers and how workers fare over a period of several years after leaving the public sector. {Footnote 20}

The Tunisia Rural Works Program

A.I.D. has a great deal of experience with public works programs, both for generating employment and creating physical infrastructure. {Footnote 21} Wages for some of these efforts have been furnished in kind through food-for-work programs. Local currency for cash wages have been generated through market sales of PL 480 commodities or other nonproject assistance - programmed ESF monies or bank deposits by private sector businesspeople for imports under commodity import programs.

However, A.I.D.'s experience with implementing these types of programs in the context of structural adjustment programs is not extensive, although undertaking them in coordination with policy reform appears to make sense from several perspectives. From an economic standpoint, pursuit of appropriate adjustment policies could create an environment conducive to economic and social development. Yet sufficient physical infrastructure (e.g., roads and bridges, market structures, schools, health clinics) is often lacking, and direct investment in infrastructure construction can speed response to a new set of policy-level incentives. Given this logic, it follows that the economic return to such infrastructure creation is greater than what it would otherwise have been in the absence of an appropriate economic policy framework. It can also be argued that in countries that have historically pursued import substitution policies through overvaluation and protectionist trade regimes, implicit subsidies have been granted to capital while labor has been taxed. Liberalization leads to an increased demand for labor. And one function of labor-intensive public works programs can be the transfer of skills, thus increasing labor productivity and in turn promoting greater economic growth.

From an equity standpoint, such interventions frequently attempt to target the poor, a group often receiving few benefits from public investment relative to other groups in society. To the extent that the poor actually capture benefits (both from wages as laborers and as users of the social infrastructure), public expenditure policy becomes more progressive.

Politically, implementing public works programs demonstrates concern by government and donors about the social costs associated with policy reform. If targeted at those groups most hurt by adjustment (or economic downturn prior to the onset of adjustment), such programs can defuse some of the potential political problems associated with temporary increases in unemployment.

Background and Program Elements

Tunisia's economic and social development over the last several decades has largely been a success. Per capita gross national product in 1990 was $1,488, exceeded in Africa only by some Organization of Petroleum Exporting Countries (OPEC) members, Mauritius, and South Africa (World Bank 1990). Since the 1960s, Tunisia has made impressive progress in social indicators with substantial improvement in life expectancy, child mortality, adult literacy, and a tempering of the population growth rate (2.1 percent). However, growth in the rate of Tunisians entering the labor force has been higher because of the increased entry of women and the overwhelmingly young profile of the population. Through the mid-1970s, prudent macroeconomic policy and an emphasis on human resource development were key to Tunisia's success. However, booming oil revenues in the late 1970s led to unwise public sector expansion, precipitating a balance-of-payments crisis as oil prices fell in the early 1980s. Exacerbated by this trend, unemployment reached the 15-percent range by the mid-1980s.

In response to the economic crisis, the Tunisian Government initiated a series of policy reforms in 1986. In the short term, these reforms were intended to redress balance-of-payments problems and rein in public expenditure. Soon thereafter, the Government attempted longer term structural reforms (trade regime and domestic market liberalization, financial sector reform, reorientation of public investment, and the like). This led to a series of structural and sectoral adjustment loans from the World Bank, beginning in 1987. A.I.D. joined other donors in supporting the adjustment program through a combination of ESF-funded commodity import programs and PL 480 programs.

In an effort to reduce the social costs of adjustment, A.I.D. provided a portion of funds from a $57 million PL 480 Title I program to the Tunisian Government between 1987 and 1989 to enlarge the PCRD. {Footnote 22} The program was an ongoing effort, centrally coordinated by the General Commissariat for Regional Development (CGDR) within the agriculture ministry but also involving municipalities, the departments of Health and Education, the National Institute of Archaeology, and the

Department of Tourism as implementing agencies.

From its inception, the program had two objectives: to act as a safety net for unemployed workers (especially in construction and industry) and to assist farmers hurt by the 1988-1989 drought. It was therefore an attempt at compensation for adjustment, as well as a relief effort. Operating in both urban and rural areas (the English translation of the program title is a bit of a misnomer), civil works included forestry and desertification control, soil and water conservation, improvement and maintenance of public works and archaeological sites, road maintenance, and building refurbishing.

The program attempted to reach the poor through a self-targeting mechanism - setting wages at low levels so that only the poor would apply. In addition, a rotation system was established to relate the length of employment for any individual to the intensity of unemployment in the region. The greater the unemployment pressure, the more quickly the rotation was to occur. Rotations were reported to vary from 2 weeks to 2 years. {Footnote 23}

Program Implementation

Table 5 provides a breakdown of the allocation of 1987-1988 funding. The cost of the program over 2 years was approximately $27 million, or around 20 million Tunisian dinars (TD). Eighty percent of the budget was used for financing the salaries of unskilled labor, with the remainder devoted to skilled labor. Physical accomplishments of the PCRD in forestry and soil and water conservation are detailed in Table 6. The PCRD furnished funds to support slightly fewer than 700,000 person-days of labor in 1987, and nearly 3 million in 1988. Hachette (1989) estimates that the PCRD absorbed approximately 20 percent of total Tunisian unemployment in 1988. {Footnote 24} In all, 40,000 jobs were created, which assisted 100,000 families.

With A.I.D. support the PCRD implementing agency surveyed 320 PCRD workers in 32 sites and 8 governates. Findings from the survey shed light on the motivations of workers for participating. Of rural residents who participated, 45 percent did so because of hardships brought on by the drought. Of urban participants, 50 percent had previously worked in construction and were unemployed because of the recession. Fifty percent of rural and 77 percent of urban participants took PCRD work because they had failed to find other work. More than 90 percent of those surveyed had not received any formal education. Because data on income levels of participants were unavailable, education levels were used as a proxy for poverty because of their high correlation. Hachette (1989) concludes that the PCRD was effective in targeting the poor because of the high proportion of participants with the equivalent of only a primary education or less. A high proportion of PCRD workers (30 percent) were over age 59, which, because old age is correlated with poverty, is another indication of the program's targeting effectiveness. According to Hachette (1989), the availability of workers for PCRD activities increases with age as the probability of unskilled workers finding alternative employment decreases. Participants cited low wages, instability because of the rotation policy, lack of social security, and absence of relevant on-the-job training as reasons for preferring to work elsewhere than on PCRD activities. Nevertheless, and despite expressions by some that they felt exploited, Hachette (1989) had the impression that the majority of program participants appreciated the PCRD-provided relief.

Strengths, Weaknesses, and Impact

As previously mentioned, the PCRD seemed reasonably successful targeting some of the groups in need-the elderly, unemployed construction workers, and those lacking other alternatives. That participants cited shortcomings, such as low wages and the instability associated with the rotation system, indicates that PCRD slots were not as attractive as to promote dependency and the hope that the slots would become sources of permanent employment.

Targeting. Hachette (1989) also mentions several problems that detracted from the program's success in targeting vulnerable elements of the population. Women were entirely absent from the PCRD rolls. This is explained, however, by traditional Tunisian attitudes that frown on women performing wage labor. Occasional efforts to dilute the self-targeting function of wages by combining them with other forms of reimbursement also posed a problem. In some cases, municipalities and the World Food Programme (WFP) supplemented salaries with food for work, which pushed the effective wages above the minimum causing wages to lose their self-targeting aspect and reducing the incentive to seek employment elsewhere.

Doubts were also raised about the program's effectiveness in targeting geographically those hurt by the economic downturn. The correlation between the geographic distribution of PCRD activities and the geographic distribution of unemployment is weak. From the last two columns in Table 7, regressing the share of projects per governate of total projects (dependent variable) against the share of unemployed per governate of total registered unemployment (independent variable), the yield is an R-squared coefficient of only 0.15. As is the case with many nationwide safety net programs in other countries, there is a tendency for political reasons to spread activities across administrative regions as uniformly as possible. {Footnote 25} Calculation of the coefficient of variation for the same two columns of data confirms this. {Footnote 26} The coefficient of variation for geographic project distribution is 0.39, whereas it is nearly double this for the geographic distribution of unemployment (0.67). Thus, the distribution of PCRD activities was much more uniform than the geographic distribution of unemployment, indicating that spreading the wealth was a more important criterion for allocating PCRD resources than targeting the most impoverished regions.

Obviously, the reliability of this conclusion is subject to several caveats. First, unemployment data are unreliable (especially in rural areas) and cover only those who formally register as unemployed. Second, the amount of expenditure on wages or number of person-days of work funded would have been better indicators than the number of projects in assessing the degree of PCRD involvement in the governates. If project size were closely correlated with unemployment rates in the governates, then equity would have been greater. Unfortunately, figures for making this determination were unavailable. Third, these calculations deal only with geographic targeting of PCRD activities. Most PCRD funds were allocated to vulnerable groups in all the governates where the program was present. These vulnerable groups may still have been reached in a cost-effective and equitable manner.

Despite reservations about the data, the findings are consistent with opinions expressed by a number of observers. Many believe that ruling party politics plays an important role in both allocating funds for Tunisian relief programs and deciding who will participate. If these tendencies were curbed somewhat, safety nets in Tunisia would be far more cost-effective in reaching those truly in need (Kramer 1990).

Reflecting the PCRD objective of providing drought relief, most activities it supported were in rural areas. This runs counter to government-sponsored safety nets in many other countries, where there is often an overwhelming urban bias, despite the concentration of poverty in rural areas. Because the urban program was implemented totally by the Government, it may have displaced some private sector construction activity.

Evidence on development impact. Because of inadequate monitoring, Hachette (1989) is unable to draw any conclusions regarding either the short- or long-term impact of PCRD activities. Most monitoring records maintained by the Tunisian Government concern inputs rather than outputs. Yet these are sketchy, because the relationship between disbursed credits and the number of workdays is difficult to determine.

Hachette (1989) is dubious of the potential long-term effect of PCRD activities in addressing structural unemployment and alleviating poverty. One reason is that little attention has been given to the recurrent cost implications of activities supported by the program. The probability is high that most of the infrastructure improvements will fall into disrepair because of this oversight. {Footnote 27}

Another reason that the long-term effect appears limited is that a conflict exists between the short-term safety net objective of the rotation system (to reach as many of the poor and unemployed as possible) and the long-term objective of increasing the skills of participants in order that they can become more effective members of the labor force. In Hachette's (1989) words, "a program designed to be a safety net for the poor unemployed cannot simultaneously maximize productivity....On-the-job training requires more labor stability, and hence, reduction in the frequency of rotation."

Because the long-term goal of skills acquisition is an overriding concern, Hachette (1989) advocates that the PCRD emphasis shift from safety nets to more extensive training, extension, and supervision in the conservation techniques targeted by the public works program. In addition, he proposes that PCRD activities be developed within the overall context of national training policies. PCRD administration should be integrated with the Tunisian Government agency responsible for determining employment policy. {Footnote 28}

Policy impact. The program agreement between the U.S. Government and the Government of Tunisia identified self-help measures to increase the efficiency and productivity of the Tunisian agricultural sector. Most of these measures involved the Tunisian Government pledging continued support for agricultural research. Agricultural policy issues concerned reducing input and output subsidies to bring them more in line with world prices. {Footnote 29} These policy-related, self-help measures were essentially the same as those stipulated under the World Bank's Agricultural Sector Adjustment Loan (ASAL), which was appraised in 1986.

For the most part, the Tunisian Government successfully instituted the policy measures. {Footnote 30} Major target prices for cereals and fertilizer were set based on a moving average of world prices. Marketing margins for fertilizer were liberalized. Although agricultural parastatals did not raise their margins in response to this policy change, private sector activity increased in fertilizer marketing. {Footnote 31} Greater private sector participation was judged to have introduced more reliability in fertilizer supply to farmers and, in some cases, to have even lowered their costs.

Because of extreme volatility in world market prices, output and input prices as determined by the moving average formula did not always closely coincide with actual border prices. However, implicit taxation on farm output - prices paid to farmers below the adjusted world price equivalent - prior to the ASAL was replaced by substantial price rises for hard and soft wheat and barley. Fertilizer prices also rose, resulting in a decrease in subsidy payments.

It is not possible to gauge the political effectiveness of A.I.D. support to the PCRD in sustaining policy reforms carried out under the adjustment program, because the program ran concurrent with efforts by the World Bank, IMF, and other donors supporting the reform process. Assisting the Tunisian Government with concessional wheat imports and placing funds at the disposal of a nationwide program as popular as the PCRD may have helped to make the adjustment program more palatable to the Government and the general population, but it is difficult to determine the extent. Although the Mission appears to have more or less piggybacked on the policy conditionality of the ASAL in the PL 480 self-help measures, there is evidence that A.I.D. took a more proactive role in the policy dialogue process in the late 1980s through its Agricultural Policy Implementation Project. The World Bank's Project Completion Report for the ASAL cited the project as having made substantial contributions to the policy process through analysis, dissemination of results, and training of Tunisian researchers.

Lessons From Other Public Works Programs

Hachette's (1989) doubts about the long-term sustainability of PCRD actions are echoed in other assessments of public works programs. In a review of five A.I.D.-sponsored labor-intensive infrastructure projects, Bowles (1988) judged that provisions for after-project maintenance were adequate for only the Indonesia Rural Works Program (see Table 8). After-project maintenance provisions were in place in the Indonesia project principally because the types of subprojects implemented were on property traditionally perceived as communal and for which maintenance had for centuries been popularly viewed as the responsibility of local communities not of the individual, government body or donor agency. Reasons for failure to provide adequate maintenance included lack of public funds when projects were viewed as essentially government property (Kenya and the East Caribbean) and lack of an agricultural policy environment conducive to rural development and crop marketing (Jamaica). These problems occurred despite short-term success in effecting net employment creation, using technologies that were sufficiently labor intensive, and completing initially planned construction and maintenance.
A fundamental problem with labor intensive public works programs is that they typically possess a number of competing objectives. In assessing the potential of public works programs to address food insecurity, von Braun et al. (1991) identify a built-in tension between the objectives of short-term food security and long-term skills-enhancement asset creation. In the context of policy reform, both objectives may make sense. However, as Hachette (1989) explicitly states, these may in practice be mutually exclusive.

Possible (and sometimes conflicting) short- and long-term program objectives include the following:

Short-Term Objectives

Compensation to the poor for adjustment

Compensation to those temporarily displaced, but generally not poor

A safety net for the poor to provide temporary relief because of a natural or manufactured disaster, such as drought, locust attacks, and warfare

A safety net for the poor to provide semipermanent relief because of seasonal unemployment

Dissipated political pressure during the transition from austerity to growth

Long-Term Objectives

Permanent job creation through skills transfer

Creation and maintenance of high quality physical infrastructure that can be used for development purposes

Institution building (local government, NGOs and other grass-roots groupings, and central government ministries)

Small enterprise development

If a permanent program is in place, an insurance scheme for the poor that offers the poor the security of knowing that a safety net is in place at all times should they suffer a temporary loss of income

The Tunisia program explicitly included compensation to those temporarily displaced; temporary relief to the poor effected by disasters; permanent job creation through skills transfer; and creation and maintenance of high-quality infrastructure. All the other goals (with the exception of the last) were present to some degree. If the PCRD were assessed using the types of questions raised in Table 8, it would probably score similarly to the Kenya and East Caribbean projects, where short-term goals were reached while the long-term viability of investments and maintenance remained in doubt. Although much of the infrastructure created by the PCRD, especially forestry and soil conservation investments, was placed in private hands, sustainability is in doubt because farmers received little information about why these measures were important. There were also some doubts concerning the economic and agronomic appropriateness of these technologies. The program seemed reasonably effective in targeting poor rural dwellers for drought relief and unemployed construction workers for compensation because of losses from adjustment. {Footnote 32}

However, attention to the political and cultural aspects of the PCRD may not have been adequate. Women in particular did not receive direct employment benefits from the PCRD, a factor that was a function of culture and tradition. (Hachette [1989] advocates setting up a specific PCRD program for women.) Would it be wiser, then, to reach women through safety nets or through development programs, such as supplemental feeding programs, agricultural extension, and health education, in which female participation is more common - especially in a country like Tunisia where a wide array of national safety net programs exists? {Footnote 33}

At the very least, detailed social impact analysis is required. As Bowles (1988) states, "Perhaps in the case of labor-intensive employment more than any other type of project, cultural factors may dominate." Careful attention to land tenure arrangements and traditional gender, ethnic, and social group labor divisions is necessary, as is economic and institutional analysis commonly undertaken in design and evaluation.

In addition, numerous instances were evident of wages being paid in excess of the level necessary to maintain the safety net aspect of the program and avoid developing dependency on the PCRD as a semipermanent source of work. Bowles (1988) advocates strong central control over labor-intensive infrastructure projects but a decentralized administration, allowing local administrators to select projects based on guidelines set by the central government agency in collaboration with A.I.D. Norms for the number of workdays required to complete a given task were not clearly defined by the General Commissariat for Regional Development, nor were wage levels strictly adhered to. Failure to define these variables can dilute the effectiveness of public works programs as safety nets. {Footnote 34}

The Madagascar Food For Progress Program

Of all the forms of development assistance at A.I.D.'s disposal, PL 480 has perhaps been used more extensively than any other form of aid to promote policy reform and support safety net programs, especially in the areas of agricultural policy reform and food security at the national and household levels. Sales of PL 480 commodities are often used to generate local currency for funding in-country expenses of development projects. Some of these projects may have a safety net objective, as was the case with the Tunisian PCRD program, which was partially funded with local currency proceeds from sale of PL 480 commodities. The imported commodities themselves may be used for safety net purposes, most commonly for stabilizing food prices during the transition from a highly interventionist agricultural policy regime to a more liberal, market orientation.

Proponents of stabilization measures generally justify them on two counts. First, stabilization measures could protect poor consumers and small farmers from the debilitating effects of wild price swings as market forces replace administrative fiat in setting prices. Second, support of stabilization can make governments less reticent toward market liberalization and can achieve the political pressures that liberalization may unleash. However, these programs are not without opponents. Critics of stabilization measures claim there is an inherent inconsistency between allowing market forces to determine prices and simultaneously devising methods to stabilize prices through public intervention schemes. Such public interventions may reflect a heavy political bias and actually destabilize prices more than if prices had been left entirely to the market.

Background and Program Elements

The Madagascar Government took its first steps toward liberalizing the rice subsector in 1983. Liberalization initially involved lifting price controls and rice marketing restrictions in certain parts of the country (Meerman 1991). However, the two most important irrigated basins for marketed rice remained under strict government controls in terms of pricing and public monopsony buying. In 1985, the Government and the World Bank agreed to a Rice Compact. This agreement was essentially a compromise made to achieve food self-sufficiency by 1990. Under the Rice Compact, the Madagascar Government agreed to liberalize rice marketing in the two basins and the World Bank agreed to assist the Madagascar Government in setting up a rice buffer stock, temporarily continuing its monopoly on rice importing. As Meerman (1991) states, the World Bank acquiesced to these two measures, implying, with little subtlety, that from the start the Bank was not terribly enthusiastic about the buffer stock idea. The officially stated purpose of the buffer stock was to minimize price fluctuations during the lean season, which normally lasts from November to April and is characterized by short supplies and high prices. {Footnote 35}

The buffer stock program began to operate in 1986. The Directorate of Food Security was authorized to manage the buffer stock program, and two parastatals (SINPA and SOMACODIS) were responsible for moving stocks from ports to warehouses.

To support the rice subsector reforms and formation of the buffer stock, the U.S. and Madagascar Governments signed in August 1986 the Food for Progress Program Agreement (FPP), which was to last 3 years. A.I.D. saw the buffer stock operation as having three purposes:

To intervene as needed on the open market during the lean period to keep rice prices within reasonable limits

To ensure continued public distribution of rice to the needy at official prices on a schedule that allowed these sales to phase down as domestic market prices stabilized

To serve as an emergency stock as needed {Footnote 36}

A.I.D.'s participation in the buffer stock effort was prompted by the steep price rises of the 1985-1986 lean season. Antananarivo rice prices climbed to more than 700 Malagasy francs per kilogram between December 1985 and February 1986, causing great hardships for urban consumers and threatening to derail the reform program. {Footnote 37} It was hoped that supporting the buffer stock would help the Madagascar Government avert a similar situation during the 1986-1987 lean season.

Although FFP was envisaged as a 3-year program, it was funded only for the 1st year. A.I.D. decided that imports were not needed in subsequent years because of record harvests. Thirty thousand tons of rice were supplied to the Government's rice buffer stock between November 1986 and April 1987. As of July 1988, all FFP rice had been sold. In addition to the FFP rice, the WFP provided 5,000 tons for the 1987 and 1988 buffer stock.

Program Implementation

Table 9 provides a chronological summary of major events related to the operation of the buffer stock. Operations began in

November 1986 with an announced retail trigger price of 480 Malagasy francs per kilogram. In principle, when retail prices rose above the trigger price, sales of buffer stock would begin in order to keep supply up and prices down. Sales would continue until the market price fell below the trigger level. According to Meerman (1991), the buffer stock worked as intended during the 1986-1987 lean season. Slightly more than 14,000 metric tons of rice were sold, most in Antananarivo through private traders at a retail price of 450 Malagasy francs per kilogram. Operations for the season ceased in April 1987 as the lean season ended.

An initial glance at the evolution of rice prices would indicate that the buffer stock fulfilled its price stabilization objective during the 1986-1987 lean season (see Table 10). Whereas Antananarivo rice prices averaged 670 Malagasy francs per kilogram from December 1985 to April 1986, rice prices averaged only 482 Malagasy francs per kilogram for the same months of the 1986-1987 lean season - roughly a 30 percent reduction. However, more was going on in the rice market than buffer stock sales. In reaction to the significant price rises of the 1985-1986 lean season, private merchants purchased large volumes of rice. To guard against possible political repercussions in the event of another lean season like 1985-1986, the Government imported heavily, while simultaneously encouraging parastatals to compete directly with the private sector in purchasing paddy (Hough et al. 1987). As a result, public and private rice and paddy stocks were large when the buffer stock began. A combination, therefore, of buffer stock and other public and private buying and selling activities was responsible for 1986-1987 lean-season prices evolving as they did.

This short-term success in price stabilization carried the seeds for serious problems throughout the remainder of 1987. Having sold 14,000 metric tons during the 1986-1987 lean season, the buffer stock still held 19,600 metric tons as of April 1987, with much of this rice beginning to spoil (Meerman 1991). {Footnote 38} An additional 25,000 metric tons of Thai rice, given by the Soviet Union as a gift, entered the buffer stock in October. The World Bank and others recommended that this shipment be delayed, but to no avail because it would be politically inappropriate for the Madagascar Government to refuse food aid.

Parastatals that had overpurchased in 1986 were facing severe cash flow problems by mid-1987. SOMALAC, the irrigation authority in the high producing zone of Lac Aloatra, held 15,000 metric tons of paddy in April 1987 and was unable to cover the credits taken to finance paddy purchase. Eventually, a government-guaranteed loan was needed to bail out the parastatal (Meerman 1991).

Prices had also fallen substantially, making stock liquidation a losing proposition. There was little hope of a significant price rise in the near future because good rains promised a bumper harvest in late 1987. {Footnote 39}

Government decisions related to rice marketing policy in 1988 were heavily influenced by the impending elections of March 1989. Meerman (1991) calls 1988 the year of "political rice," with pricing and import policies intended more to curry urban favor than to meet any economic reform goals. Because of the 1987 glut previously described, no PL 480 rice was imported and the last of the FFP stocks were sold by early 1988. Thus, A.I.D.'s direct involvement in rice stabilization policy ended.

Government actions in 1988 undercut any potential for effectively managing the buffer stock because the Government placed rice at the disposal of a private wholesaler with a retail distribution system operated by local agents of the Government's political party. This action had the effect of keeping rice prices below 400 Malagasy francs per kilogram. According to a World Bank supervision report in early 1988, "It was not possible to have an informed discussion with decision-makers about the course of the rice program...the movement of imported rice stocks now appears to be out of control and unmonitorable. {Footnote 40}

The donor stance toward rice marketing in 1989 was largely one of negotiating the complete liberalization of rice marketing and importation and phasing out public rice stocks. As liberalization proceeded in other sectors, rice market policies increasingly came into contradiction with the overall macroeconomic policy framework. Although the Government continued to import rice during 1989, the Policy Framework Paper for 1990-1992 stipulated complete liberalization of rice importing. Buffer stock volumes were drawn down until only 2,000 metric tons were left in September 1990. Nearly all 1990 rice imports (41,000 metric tons as of September 1990) were handled by the private sector, reversing the total government domination of imports that had been in place for 15 years (Meerman 1991).

Strengths, Weaknesses, and Impact

The Madagascar FFP program, which specifically supported operation of the buffer stock, was also an attempt to support the overall rice marketing liberalization effort. Acting as a safety net, the program was to protect the vulnerable with minimal distortion of market signals. Unlike the Mali and Tunisia programs discussed earlier, the Madagascar FFP program was not targeted to a specific socioeconomic group, but was a general safety net - essentially a universal subsidy program designed to compensate consumers who would suffer inordinately from higher rice prices if prices were entirely market driven.

In addition to the three direct buffer stock objectives previously cited (price stabilization, safety net for the needy, and emergency stock), the program agreement identified the following criteria for determining whether the buffer stock was a success:

The operation of the buffer stock should not interfere with private marketing channels.

Competitive private marketing of rice should continue to be encouraged.

Evidence should show a decrease over time of the volume of public distribution.

Appropriate pricing policies should be followed for imported and domestic rice and corresponding release price targets for the reserve stock.

By the 3rd year of the program, domestic rice production should have increased, satisfying a larger proportion of domestic needs.

Economic impact. Meerman (1991) states that the buffer stock was flawed from the start because no clear ground rules related to pricing and stock release were established. The Rice Compact was a last-minute compromise, and there was an understanding that stock management rules would be worked out later. This arrangement probably would not have presented problems if the donors and the Madagascar Government had been in close agreement about the goals of the buffer stock. The World Bank and A.I.D. viewed the role of the buffer stock as a transitional measure, moving from a statist approach to rice- market organization (dominated by parastatals and the central government) to a more market-determined approach, in which basic decisions would be made through private buyers interacting with sellers. The donor approach emphasized gradual development of efficient markets whereby strategic, but minimal, manipulation of prices would add a reasonable amount of stability and predictability to the market while encouraging increased private sector participation in production, marketing, and external trade. Once this participation was sufficiently strong, movement to border pricing as the determinant of market prices would be the rule. The government approach had only one objective - to keep rice prices low for urban consumers.

As a result, major buffer stock decisions were made largely on an ad hoc basis. Rassas et al. (1988) list a number of buffer stock decisions that ran counter to promoting economic efficiency and encouraging more active private sector participation in rice marketing. These decisions include the following:

Announcing the trigger price after the beginning of marketing campaigns, as well as inadequately publicizing the price
Lowering the release price in March 1987 (a decision made by the Madagascar Government and the World Bank)

Selling imported rice at below-market prices, undercutting private trader operations

Selling buffer stock rice on a less than fully competitive basis at the wholesale level to two parastatals (SINPA and SOMACODIS) and the pseudo-private party-affiliated PROCOOPS

As of mid-1988, the private sector participation in rice marketing had contracted because of greater risk from price uncertainty occasioned by government buffer stock, import, and domestic distribution decisions. This occurrence was associated with a commensurate increase in quantities handled by the public sector. Although private sector contraction may have occurred (and this is disputed by some observers), it was clearly a short-term phenomenon.

Political impact. There is considerable evidence that during the buffer stock operation certain politically motivated actions of the Madagascar Government were disruptive to greater private sector participation in rice marketing, at least in the short term. These actions had less to do with public behavior toward the buffer stock than with parallel public interventions through parastatals and the pseudo-private rice wholesaler. In addition, political considerations received greater weight in determining buffer stock pricing and stock acquisition. These decisions ensured that the buffer stock would be such a financial drain as to be unsustainable without substantial donor support.

At the same time that the buffer stock suffered from political manipulation, major rice market reforms were carried out to stimulate rice production, hold down consumer price increases, and encourage private sector involvement in domestic marketing and importation. By late 1990, the Madagascar Government had greatly curtailed its involvement in rice marketing and importing; however, to what extent the presence of the buffer stock contributed to this state of affairs is unclear. As mentioned previously, a combination of factors contributed to price stabilization during the 1986-1987 lean season, not the least of which was aggressive (and financially disastrous) parastatal competition with the private sector. The Government did everything in its power to keep urban consumer prices low until the 1989 elections. The buffer stock was only one part of this effort. Thus, claims that the net effect of support to the buffer stock was substantial can be reasonably discounted.
The buffer stock, which was part of the Rice Compact compromise, was plagued by conflicting pressures-essentially reflecting different degrees of faith by major donors and the Madagascar Government about the ability of the free market to allocate resources in a way consistent with the public interest. Although a buffer stock can be viewed as a way of dampening the volatility of market signals (though not intended to obscure such signals), the Government did not trust the buffer stock alone to do this.

As a result, parastatal operations and political party mechanisms were also used to maintain low prices for the urban consumer through aggressive purchasing in domestic markets and by importing large volumes of rice.

Despite these problems, the ultimate political impact was that the overall economic reform program survived at the same time that the ruling party overwhelmingly won the 1989 elections. To the extent that the buffer stock contributed to keeping the reform process alive, donors view it as a political success. To the extent that it promoted good will among voters, the ruling party must view it positively. Although the buffer stock may have been responsible for generating market uncertainty in the short term, the Government felt confident enough to agree to a Policy Framework Paper for 1990-1992 that greatly reduced the public role in rice marketing and imports. The Government has largely stuck to the stipulated reforms, and the private sector continues to respond favorably to continued involvement in rice markets.

Equity implications. In the program agreement signed between the U.S. and Madagascar Governments, equity was an explicit concern as the practice of publicly distributing rice at official prices to the needy was to continue until evidence showed that domestic market prices had stabilized.

Unfortunately, quantitative data on the evolution of rice consumption patterns do not exist after 1986-1987. It is, therefore, impossible to calculate with any precision the distributional effects of the buffer stock program or the parallel actions of the Madagascar Government vis-…-vis rice distribution. However, falling consumption just prior to establishing the buffer stock may have had negative implications for the poor, and government actions to increase rice availability through buffer stock and other channels helped the poor, albeit not in a very cost-effective manner, because targeting of the most vulnerable was not a high priority. Table 11 shows the evolution of the financial costs of rice subsidies for Madagascar from their peak in the early 1980s to 1985-the period just prior to initiation of the buffer stock. A total consumer subsidy bill of nearly $30 million (18.9 billion Malagasy francs) in 1981 had fallen to almost nothing by 1985. But, as previously discussed, severe price rises during the 1985-1986 lean season created great hardship for consumers and prompted donors to support the buffer stock idea.

As is the case with most universal food subsidy programs, Madagascar's rice subsidy policies prior to 1986 were undoubtedly highly regressive. Tables 12 and 13 give an indication of the distribution of officially distributed rice, in urban versus rural terms (Table 12) and by income quartile in the capital city (Table 13).

The geographic distribution of poverty in Madagascar is overwhelmingly rural. Using 1980 data, Dorosh et al. (1990), calculating poverty lines based on minimum food consumption requirements, estimated that 37 percent of rural households, 26 percent of households in small urban centers, and 18 percent of households in the seven largest urban centers can be classified as falling below the poverty line. With an overall total of 34 percent of households in Madagascar living in poverty in 1980, Dorosh et al. (1990) estimate that 90 percent of these households were rural. As Table 12 shows, however, no officially distributed rice reached rural areas. If these figures are true, the maximum number of poor people that could have theoretically benefited from consumption subsidies were the 10 percent of Madagascar's poor residing in urban areas.

Looking at just the capital city (Table 13), the poorest 25 percent (first quartile) definitely benefited from rice subsidies in 1982-1983, although benefits were poorly targeted to this group; they received only about two-thirds of the per capita amount of the wealthiest groups (the third and fourth quartiles). Moreover, this poorest group was hardest hit by the removal of subsidies in 1986-1987, as reflected in the reductions in overall consumption among them (a fall of 31 percent versus an overall average decrease of 20 percent). Diminished access to official distribution channels was more or less evenly distributed, although the richest group (fourth quartile) suffered somewhat less than the other income groups.

Therefore, one can make the following tentative claims about the equity implications of the buffer stock:

If effects of the buffer stock are reflected in the 1986-1987 consumption data (its first and supposedly most effective year), the stock does not appear to have directly benefited the vast majority of Madagascar's poor, who live in mostly rural areas and received no buffer stock rice. However, the rural poor may have benefited indirectly in that buffer stock rice combined with imports to increase overall rice availability and place downward pressure on market prices.

Buffer stock rice did not arrest the decline in rice consumption of the urban poor, although this decline might have been worse during the 1986-1987 lean-season had there been no buffer stock. As previously detailed, 1986-1987 lean season prices were successfully stabilized, and the buffer stock had a role in achieving this, although it is not possible to separate buffer stock effects from other effects and quantify them.

Although no household-level data are available, the urban versus rural distribution of officially distributed rice may have improved a bit during the 1987-1988 lean season because donors insisted that a major portion of buffer stock rice be distributed outside the principal urban centers. As a result, 44 percent of buffer stock rice (8,000 of 18,400 metric tons of FFP and WFP rice) was sold in peripheral markets. {Footnote 41}

Because parallel government rice distribution activities in 1988 were politically motivated to appease urban voters, it is probably safe to conclude that these efforts were no more progressive and cost-effective in reaching the poor than previous efforts pursued through official distribution channels. {Footnote 42}

The Role of Food Aid as a Transitional Tool

The first food-aid-related lesson that can be derived from the FFP experience in Madagascar is that food aid is a less flexible mechanism for promoting policy dialogue than are other forms of nonproject assistance - cash transfers and commodity import programs, for example. In periods of food scarcity, properly programmed food aid can play an important role in stabilizing prices and keeping policy reform programs on track. Some evidence exists that this stablization occurred during the 1st year of

Madagascar's buffer stock program. However, in years of relative food abundance, food aid loses its attractiveness as a stablizing force and can have a disincentive effect. In the case of Madagascar, the A.I.D. Mission correctly decided to abbreviate the FFP program from 3 years to 1 to avoid exacerbating the 1987 rice glut. Yet, to the extent that underwriting certain aspects of policy reform buys leverage, A.I.D.'s leverage in the policy dialogue process was reduced. Such problems are not present with other forms of nonproject assistance that do not take into account the vagaries of a recipient country's agricultural production from year to year.

In a review of the success of using food aid to promote economic policy reform in Mali, Guinea, and Bangladesh, Block et al. (1988) come to a similar conclusion about the value of food aid in the policy dialogue process. They found that in Mali, food aid played a crucial role during years of scarcity, whereas its usefulness was much less evident in years of abundance. Table 14 summarizes their findings related to the advantages and disadvantages of using food aid for policy reform purposes. Some of these findings are reflected in the Madagascar experience. Because A.I.D. is only one of a number of donors typically involved in food aid delivery, any discussion of the uses of food aid should consider the role of donor coordination. Table 14 indicates that food aid can be used to promote increased donor coordination; however, if donors disagree on specific policy issues, host governments can use the lack of consensus to play a game of divide and conquer.

In the case of the Madagascar buffer stock program, there is evidence that donor efforts were not well coordinated. In March 1987, Madagascar Government and World Bank officials jointly decided to reduce buffer stock sales prices. Neither A.I.D nor WFP, the two donors that had provided rice to the buffer stock, was consulted about this reduction (Hough et al. 1987), nor did the decision to reduce prices contribute to making markets more predictable for traders. According to Rassas et al. (1988), the rationale for this action was that by lowering the preharvest price, traders would be persuaded to sell the last of their stocks to reduce the gap between the immediate postharvest price and the eventual 1987-1988 lean-season price. It is not readily evident why a reasonably savvy trader could not discover without help the incentive of selling off stocks just prior to a new harvest without government prompting. Hough et al. (1987) state the following about the appropriateness of World Bank actions: "The World Bank role in policy coordination should not imply a unilateral assumption of representational authority in donors' dealings with the Madagascar government. Donors have a legitimate right to advise on and consent to programmatic decisions which involve the use of bilaterally donated resources."

This of course implies that A.I.D. Missions have the analytical capability, either within the field Mission or through technical assistance, to engage in policy dialogue with host governments and the World Bank. A.I.D.'s analytical capability is often unavailable in small Missions, as was the case in Madagascar during the buffer stock period. Although it was initially presumed in the early 1980s that nonproject assistance would enable A.I.D. to move significant blocks of resources in a less management-intensive way than project assistance, A.I.D. has become increasingly aware over the last several years that the policy dialogue associated with nonproject assistance is very management intensive, requiring significant on-the-ground expertise in economics and other social sciences.

In addition, the nature of WFP participation was unclear. According to Hough et al. (1987), A.I.D. officials believed that WFP rice was to be supplied only if no other sources could be found to meet the volume requirements of the buffer stock. However, the Antananarivo WFP representative, unaware of this stand, offered the opinion that "the Madagascar government finds it politically useful not to have the buffer stock program linked exclusively to one bilateral donor" (Hough et al. 1987).
Finally, A.I.D. nonproject assistance appears insignificant in comparison with the financial leverage that the IMF, the World Bank, and, in some cases, other multilateral or bilateral donors bring to the policy dialogue process. This applies not only to PL 480, but to other forms of nonproject assistance, as well. In the case of Madagascar, A.I.D. conditionality probably piggybacked that of the World Bank. In other words, the PL 480 program made no difference in how the policy dialogue process was conducted or what conditions were placed on the assistance. A.I.D. resources were dwarfed by those of other organizations flowing into the Madagascar rice sector. In sheer volume, PL 480 importations under this program amounted to only about 2 percent of total Madagascar rice availability in 1986-1987. This fact is not meant to disparage the usefulness of A.I.D.'s participation in the policy process. Rather, it is meant to underline the importance of donor coordination for an organization like A.I.D. and to inject a note of realism into the debate over A.I.D.'s ability to influence the direction of policy change.

4 Findings, Conclusions, and Recommendations

This section highlights the main findings presented in this study and draws the main conclusions with implications for future A.I.D. programming. The conclusions are separated into general and program-specific categories. A decision tree is mapped out for determining the circumstances under which various types of compensatory or safety net programs may be warranted. The section concludes with a discussion of areas with significant research gaps.

Summary of Findings

Breadth of A.I.D. Regional Coverage

As indicated in Section 2, the number of A.I.D.-supported compensatory and social safety net programs is small, considering A.I.D.'s size and its presence in most developing countries. The reasons for this include the following:

Classifying programs as exclusively compensatory or social safety nets is difficult because many program activities fall within a gray area, where the distinction between compensation or social safety nets and other development programs is unclear.

Providing safety nets during adjustment is a new idea, emerging only in 1987 with the publication of Adjustment With A Human Face (Cornia et al. 1987). Donors have just recently begun to design and implement projects and programs that attempt to mitigate some of the adverse effects of adjustment.

Some of these programs (especially social investment funds) involve donors pledging money to a common pool. A.I.D. has increasingly discouraged commingling of funds because of difficulties this creates in determining whether A.I.D. resources have been used for intended purposes.

Certain regional bureaus within A.I.D. appear to have consciously discouraged compensatory and social safety net programs, viewing the social costs of adjustment essentially as a temporary development fad and economic growth as the best remedy for poverty alleviation.

The highest concentration of A.I.D.-supported programs for laidoff public and parastatal workers and for investment in social funds is in Latin America and the Caribbean (LAC). The United States plays a relatively predominant political role in many LAC countries, particularly in Central America, and A.I.D.'s nonproject assistance is far more important as a result. The U.S. Department of State and A.I.D. may sometimes be given the lead in addressing the political factors related to adjustment programs. In Sub-Saharan Africa, where A.I.D.'s presence is less visible, diplomatic pressures may not be as great. Although A.I.D. resources are still substantial in Africa (there are cases where A.I.D. is the lead donor in certain key sectors), World Bank resources (and sometimes those of the French) dwarf A.I.D.'s in many countries, making the World Bank the natural lead donor in those areas.

In the Near East, A.I.D. has been fairly active in funding safety net programs for several reasons. First, especially in North Africa, funds from PL 480 and ESF have been plentiful. Egypt and Morocco are among the largest recipients of programmed local currency in the world, and safety net programs are far more dependent on local currency than on U.S. dollar funding. Second, and closely linked to the first reason, the U.S. Government is very sensitive to political developments in the Near East region. A.I.D. is more apt to support such programs, perhaps more for political than economic reasons. Third, some of these countries, such as Tunisia and Morocco, already have a relatively high capability to support social safety net programs.

The Eastern Europe Bureau does not foresee allocating a great deal of resources to social safety net programs. This decision has more to do with perceptions of A.I.D.'s comparative advantage and limited nonproject assistance resources than a belief that they are unjustified. Because nonproject assistance and staff resources are very limited, and the costs of making a major impact in social safety net areas are great, A.I.D. has tended to leave such interventions to the larger multilateral organizations, focusing instead on providing technical assistance.

Because the structural adjustment programs of the 1980s were largely confined to Latin America and Africa, there are few compensatory or social safety net programs in Asia. For the most part, Asian countries pursued growth-oriented macroeconomic policies in the 1980s and did not have to turn to adjustment programs (the Asian "tigers") or were able to postpone adjustment until very recently (India).

Severance and Retraining Programs

Identifying the strengths and weaknesses of the three components of the VED in Mali and reasons for their success or failure is straightforward. The loan guarantee fund and studies fund components failed, whereas demand for participation in the severance pay component was high, and processing of applicants for voluntary departure proceeded smoothly.

Investment feasibility studies funded under the VED were unable to answer the types of tough questions bankers normally ask about potential profitability, contributing to the low approval rate for loans. However, evidence exists that there were a number of more serious reasons for the failure of the loan guarantee fund. It remains unclear what real incentives were present for the commercial banking sector to perform well in the loan guarantee scheme.

In contrast, several strong disincentives were present. First, targeted credit programs to promote small-scale enterprises suffered from a number of endemic problems in enlisting banking sector participation. Loans were typically small, although administrative costs for loan approval and supervision were typically fixed. At the same time, the average retrenched public servant, lacking experience in private enterprise and a formal credit history, could not be viewed as a good credit risk. Donors typically tried to circumvent this by guaranteeing some portion of the loan program, creating a dilemma of sorts. Banks generally do not wish to risk any of their money in such schemes, and a guarantee falling short of 100 percent diminishes their interest. However, if loans are 100 percent guaranteed, banks have little incentive to administer programs carefully.

Second, it is doubtful whether any sustainable lending program could be successful in the CFA zone, even to established small- and medium-sized entrepreneurs. This is because the BCEAO sets standard interest-rate spreads for all member countries, and these often fail to cover real lending costs.

Finally, the loan guarantee program was poorly coordinated within the overall macroeconomic policy reform framework for Mali, especially with regard to credit ceilings. If Banks had wished to lend to VED participants, they would have had to have either paid a penalty for exceeding credit ceilings or remained under ceilings by refusing loans to regular customers. In short, a combination of an unfavorable macroeconomic environment and the problems associated with credit schemes narrowly targeted to those with little or no prior formal entrepreneurial experience made successful participation by the private banking sector unlikely.

In contrast, the severance pay component was smoothly implemented. Of greatest interest is evidence that a majority of participants used a sizable portion of funds for private investment, mainly in self-employment schemes. Most of these investments were in trade because of the quick turnover of funds in this endeavor, the relatively small amount of initial capital required, and lack of expertise in other areas. As much as one quarter of all severance funds may have been used for small-scale enterprise investment. Evidence of substantial investment and savings of severance benefits is also present in Ghana, where a more rigorous tracer survey of severed workers was conducted by Cornell University.

Labor-Intensive Public Works

The Tunisia PCRD was reasonably successful at targeting the elderly, the unemployed construction workers, and individuals lacking other alternatives. However, the program's success was tempered by some problems in targeting vulnerable groups, such as women. Another problem concerned efforts to dilute the self-targeting function of the wage by combining it with other forms of reimbursement, which pushed the effective wage above the minimum and caused it to lose its self-targeting aspect. Doubts were also raised about the program's effectiveness in geographically targeting those hurt by the economic downturn, because the correlation is weak between the geographic distribution of PCRD activities and the geographic distribution of unemployment. Spreading the wealth was a more important criterion for allocating PCRD resources than targeting the most impoverished regions.

Because of inadequate monitoring, it is impossible to draw conclusions about the short- or long-term impact of activities undertaken by the PCRD. Most government records concern inputs rather than outputs. The potential long-term impact of PCRD activities in addressing structural unemployment and alleviating poverty is doubtful. One reason is that little attention was given to the recurrent costs of PCRD activities. As a result of this oversight many of the infrastructure improvements will in all likelihood fall into disrepair. Another reason concerns the conflict between the short-term safety net objective of reaching as many of the poor and unemployed as possible and the long-term objective of increasing the skill levels of participants so they can become more effective members of the labor force. These problems are mirrored in a number of other public works programs that have been undertaken worldwide.

For the most part, the Tunisian Government successfully instituted self-help measures concerning adjustment of cereals and fertilizer prices to more closely reflect world prices. Implicit taxation on farm output (prices paid to farmers below the adjusted world-price equivalent) before to the World Bank's ASAL was replaced by substantial price rises for hard and soft wheat and barley. Fertilizer prices also rose, resulting in a decrease in subsidy payments. Private sector activity increased in fertilizer marketing, making fertilizer supply to farmers more reliable and, in some cases, even lowering costs to farmers. The political effectiveness of A.I.D. support to the PCRD in sustaining policy reforms carried out under the adjustment program cannot be isolated because it ran concurrently with efforts by the World Bank, IMF, and other donors in support of the reform process. However, evidence shows that A.I.D. played a constructive role in the policy dialogue through analysis, dissemination of results, and training of Tunisian researchers undertaken through the Agricultural Policy Implementation Project.

Use of PL 480 for Policy Reform and Safety Nets

The buffer stock funded under the Madagascar FFP program suffered from political manipulation. However, major rice market reforms were carried out and these stimulated rice production, dampened consumer price rises, and encouraged private sector involvement in domestic marketing and importation. By late 1990, the Madagascar Government had greatly curtailed its involvement in rice marketing and importing. To the extent that the buffer stock contributed to maintaining the reform process, donors may view it as a political success, and A.I.D. in particular may regard PL 480 resources as having been used effectively. To the extent that it promoted good will among voters, the ruling party must view it positively. Although the buffer stock may have been responsible for generating a fair amount of market uncertainty in the short term, Madagascar's efforts at adjustment continue with no appearance of any permanent damage to the private rice trade. Equity implications of the buffer stock and parallel government attempts by the Government of the Democratic Republic of Madagascar to intervene in rice marketing include the following:

The buffer stock does not appear to have directly benefited the vast majority of Madagascar's poor, who inhabit mostly rural areas and received no buffer stock rice. However, the poor may have indirectly benefited from buffer stock if PL 480 rice was combined with other imports to lower market prices. In such cases benefits to the poor derived from PL 480 additionality.

Buffer stock rice does not appear to have arrested the decline in rice consumption of the urban poor, although this decline might have been worse during the 1986-1987 lean season had there been no buffer stock.

Although no household-level data are available, the urban versus rural distribution of officially distributed rice may have improved somewhat during the 1987-1988 lean season, because donors insisted that a major portion of buffer stock rice be distributed outside of the principal urban centers.

Because parallel government rice distribution in 1988 was politically motivated to appease urban voters, it is probably safe to conclude that these efforts were no more progressive and cost-effective in reaching the poor than previous efforts pursued through official distribution channels.

Conclusions Relevant for A.I.D. Programming

Although it is unwise to generalize case study findings, reasons for some of the successes and failures of elements of the three programs examined appear to be reflected in the broader experience of A.I.D. and other donors. This conclusion is especially true in policy-conditioned food aid and public works, about which a good deal of literature already exists. Mali VED findings related to use of retrenched public employees' severance pay and the poor track record of accompanying retraining and credit programs are corroborated elsewhere, although such programs have not been studied as extensively as food aid and public works schemes. General and program-specific implications are presented below.

General Implications

The most important general implication of compensatory and social safety net activities for A.I.D. programming is that they are often political. If properly managed and reasonably cost-effective, these activities are not necessarily bad; political and efficiency goals are not always mutually exclusive. However, as appears true in Madagascar, A.I.D. can lose control of a program if political criteria overwhelm economic and equity considerations in host governments' decision-making.
There may also be a pragmatic argument for financing less than ideal programs for the "greater good" of sustaining the adjustment process. Elements of this line of reasoning are present in both Mali and Madagascar. In Mali, continued support to the popular VED could be used as an incentive to ensure that the less popular, but ultimately more cost-effective, hiring ceilings remained in place. In Madagascar, there was initially little donor enthusiasm for supporting the buffer stock, which was viewed as part of a compromise to ensure that other food policy reforms would continue. The implication for A.I.D. is that Missions considering funding compensatory programs or social safety nets need to enter the design process openly considering whether, in a politically charged climate, A.I.D. will be able to retain sufficient control over local currency resources used to support these activities.

Program-Specific Implications

Severance and retraining programs. More work is needed on the development impact of severance programs and their cost-effectiveness relative to other measures, such as hiring ceilings for streamlining public payrolls. At the least, severance programs should not be categorically dismissed as purely political. Lump-sum severance payments may be a cost-effective way to stimulate small-scale entrepreneurial activity in the informal sector, while also serving as a safety net for displaced public workers and their dependents. This scenario may be especially true in countries where pay scales have become seriously eroded prior to adjustment and moonlighting has become commonplace among those who leave public employment-either voluntarily or involuntarily. Program designs should incorporate monitoring plans to track progress in processing retrenched workers and to determine how workers fare over a period of several years after leaving the public sector. Another implication is that the choice of job categories for inclusion or exclusion in severance programs should be strategically determined to minimize the potential negative effects of downsizing on social service delivery. Ideally, assessments of human resource needs would be carried out for each sector, and incentives (including better pay) would be identified for retaining and upgrading the skills of qualified employees, recruiting new qualified employees to fill gaps, and removing the unqualified. In reality, accomplishing this task takes substantial time and resources, with compromises probably required. Nevertheless, efforts should be made to more carefully address the question of raising public sector productivity. Severance programs should be designed with these considerations in mind.

Credit programs for retrenched workers are fraught with problems and have less hope for success. Although not the case in Mali, some credit programs are little more than outlets for cronyism, with heavy subsidies and loans granted largely on political criteria. In Mali, however, private bankers lacked incentives to lend with speed and integrity, and it is unclear how effective incentives can be introduced. In addition, efforts at skills transfer for retrenched public employees - either through retraining or feasibility studies (as offered in Mali) - are management intensive and unlikely to yield satisfactory results. Other countries have not had much success in this area either.

Labor intensive public works. A finding from the Tunisian program and others is that, for the most part, short-term safety net concerns (reaching as many vulnerable individuals as rapidly as possible) and objectives of long-term asset creation (providing skills transfer) cannot be achieved in the same program; they are often mutually exclusive. Based on Mission and host country objectives and local conditions, design teams should explicitly pick one objective. If they feel that short- and long-term objectives can be pursued simultaneously, detailed and convincing justification should be provided in design documents.

As a rule, better monitoring plans are needed. If short-term concerns are judged to be of highest priority, plans focusing on inputs are sufficient because they are essentially relief efforts. Assessments of cost-effectiveness in reaching recipients may suffice as economic justification; however, if such programs are justified for long term, more elaborate monitoring plans for determining development impact are needed, including complete economic and financial cost-benefit analysis.

Missions may need to be wary of supporting national public works programs if they feel that geographic targeting for cost-effectiveness and equity is important. Host governments tend to distribute resources to nationwide programs evenly across regions (or unevenly if regionalism is evident, with allocations based on ethnic considerations). If the programs have merit, Missions may consider contributing to activities in selected regions, then ensuring, through end-use surveys and the like, that A.I.D.-generated local currencies actually went to those regions.

Use of PL 480 for policy reform and safety nets. Food aid has the potential to serve a useful purpose in policy dialogue and safety nets closely related to the uses of the imported commodities (Block et al. 1988). Assuming that no domestic production disincentives are created, providing food commodities for food policy reform often makes sense because the monitoring allows Missions to build expertise in the particular commodity subsector in which aid is provided and helps A.I.D. gain a stronger voice in the dialogue process. However, these benefits are not guaranteed.

A.I.D. experience in Madagascar and elsewhere indicates that food aid is a less flexible mechanism for promoting policy dialogue than other forms of nonproject assistance, such as cash transfers and commodity import programs. In periods of food scarcity, properly programmed food aid can play an important role in stabilizing prices and maintaining policy reform programs. But in years of relative food abundance, food aid loses its stabilizing attractiveness and can have a disincentive effect. In the case of Madagascar, the A.I.D. Mission correctly decided to abbreviate the FFP from 3 years to 1 to avoid exacerbating the 1987 rice glut. To the extent, however, that underwriting certain aspects of policy reform buys leverage, A.I.D.'s leverage in the policy dialogue process was reduced. Such problems are less common if the food aid commodity is one that the recipient country does not produce or for which there is a net deficit, although one does have to take into account issues of substitutability in consumption and resulting disincentive effects.

The conclusion about using food aid as a safety net to stabilize prices or lower prices during periods of potential shortage is that PL 480 will assist in reducing prices only if volumes exceed what would have been imported in the absence of a PL 480 program. If PL 480 merely displaces commercial imports, then the net effect on market prices is zero.

These potential problems are not present with other forms of nonproject assistance because the vagaries of a recipient country's agricultural production from year to year, the complex consumption relationships, or the issue of additionality do not have to be taken into account.

Because A.I.D. is never the only donor supplying food aid or participating in policy dialogue, effective donor coordination is paramount in ensuring that food aid is properly used. One issue that was not present in Madagascar but is important concerns the flexibility with which the supply of food aid can be halted if a recipient government fails to meet policy conditionality. First, if local currency proceeds are programmed to meet local costs of A.I.D. project assistance, Missions may find it difficult to cut funding when conditionality is not met. Other donors may be under the same constraint. {Footnote 43} For A.I.D., ESF monies (when dollar tracking is tied to commodity imports) and commodity import program funds may pose a similar problem.

Second, it may be politically damaging to cut food aid because A.I.D. may open itself to charges of "using food as a weapon." This situation is not a problem for curtailing ESF or commodity import program expenditures and, therefore, contributes to the relative inflexibility of food aid as a policy reform tool. Policy-conditioned food aid can play a useful role but is most effective when combined with other Mission portfolio resources to ensure some flexibility.

Recommendations

A Decision Tree Approach

Blanket recommendations cannot be provided about whether compensatory and safety net programs undertaken during economic reform should be supported by A.I.D. The appropriateness of such programs will vary from country to country, based on the nature of adjustment programs pursued, their distributional effects, the financial and human resource capability of local governments and USAID Missions in carrying out safety nets, and programs' political, administrative, and economic feasibility. The socioeconomic groups to be assisted and the types of programs to be implemented need to reflect the priorities and policies of A.I.D. and host governments.

In determining the appropriateness of a compensatory or social safety net program, program designers can be guided by the use of a decision tree for mapping the main elements of the program (see Figure 1). The decision tree is divided into three stages: problem identification (stage I), program identification (stage II), and determination of feasibility (stage III). Obviously, the decision tree concept is stylized. The decision-making process is not as neat, tidy, and mechanically sequential as presented by the decision tree and accompanying discussion - nor should it be. In reality, there will be constant feedback from stage to stage. Stage I helps determine which socioeconomic groups are most likely to be hurt by economic reform. Depending on data availability, analysis capability, and time and financial constraints, this determination may be an involved and rigorous exercise using sophisticated economic models or a "best guess" exercise to determine who is hurt. Even if only a quick assessment is possible, the task should be taken seriously. In many cases, multimillion dollar compensatory programs were designed without prior serious effort at tracing the hypothesized winners and losers from specific policy reforms. It was simply assumed that the poor would be hurt by adjustment, an assumption that resulted in implementation of unfocused crash programs. Even if somewhat cursory, analysis by qualified economists and social scientists can go a long way in clarifying whether public interventions are truly warranted and who should be target groups.

Once the probable losers from policy reform have been identified, host governments and A.I.D. must determine whether assisting these groups is a priority. If these people are poor, assisting them raises no policy problems for A.I.D.; this is clearly a priority socioeconomic group for the Agency. If they are not poor but are among the rich upper strata that benefited from political favors prior to adjustment-"rent seeking" cronies of the president, for example-it is clearly not in A.I.D.'s mandate to help them. If, however, they are in the middle (laidoff public employees or students set adrift because the government is no longer willing to serve as employer of last resort), the question becomes more complicated. Some Missions may want to assist only the poor; other Missions may be willing to help relatively wealthier groups that will definitely suffer losses in income from streamlining public bureaucracies.

Once groups in need are identified and judged worthy of assistance, stage II of the decision tree begins. In stage II, program designers identify appropriate interventions. They begin by determining whether target groups are likely to be best served by short- or long-term interventions. If the problems of the target groups are largely transitory and can be eased by short-term interventions, then relief programs, labor-intensive public works, severance pay, and other temporary programs may be the most cost-effective and rapid in reaching the greatest number of those suffering hardship. If problems appear to be more persistent, long-term interventions may be the best option. Such programs reach fewer people but assist them in a way that will be sustainable after project assistance ends. Long-term interventions most often involve chronic poverty, in which the emphasis is on increasing the physical and human capital (von Braun et al. 1991). Sustained efforts in education, health, and infrastructure creation are among the most important interventions for addressing chronic poverty.

Often, problems are both short and long term. One example would involve the chronic poor who temporarily become poorer because a subsidy is phased out or a money-losing agricultural parastatal scales back buying operations in a poor region. In such cases, temporary relief efforts may be combined with development activities to grow alternative crops or improve physical infrastructure (e.g., civil works programs that build or rehabilitate roads and handle facilities to lower marketing costs and feeding programs that temporarily raise infant food intake while educating poor women about nutrition). However, as the Tunisia case study indicates, it may not always be possible to adequately address both short- and long-term problems with the same program.

Once possible interventions are identified, representatives from A.I.D. and the host government need to determine whether the type of intervention is within their priorities. This stage requires a period of intense dialogue at which point the analysis carried out in stage I becomes very important. As mentioned, governments and donors often uncritically assume that certain groups will be hurt by reform and that a standard set of interventions will be helpful. But analysis conducted during stage I often upsets such assumptions about both the identification of losers and the strategies for helping them. Concerted efforts at educating decision-makers can be extremely useful in aligning them so the most cost-effective programs eventually receive support.
At stage III, program designers determine the administrative, political, and economic feasibility of the possible intervention. Ample literature is available on identifying appropriate targeting mechanisms. The point to be made is that tradeoffs exist between attempting to target those most in need (administratively costly but more equitable) and widening the net to include others who are not necessarily needy (less costly and less equitable). For example, the best way to ensure that programs reach only the needy is by means testing, in which program participation is determined by income level on an individual basis. Means testing, however, is beyond the administrative capacity of most host governments. Exceptions include the former socialist countries, which kept extensive records on citizens, and Chile, which has much experience with cost-effective targeting of social programs based on means testing. In most circumstances, targeting by region, age and sex, or commodity are the only feasible options.

The question of political feasibility arises again because choosing a targeting strategy implies including some segments of the population and excluding others. Governments often attempt to make social programs as inclusive as possible, in terms of geography (the apparent case in Tunisia) and level of income, with relatively wealthier urban residents gaining at the expense of relatively poorer rural populations (definitely the case in Madagascar). A more narrow targeting scheme can easily run into opposition (especially if the narrow target is the poor) and can actually result in the poor losing benefits. {Footnote 44}

Governments frequently lack sufficient administrative capability to implement either short- or long-term programs. If it is economically or politically imperative to get results quickly but the government has no previous track record of successfully implementing social programs, consideration should be given to establishing an independent agency. If, however, long-term problems are to be addressed, institution building within existing agencies should be emphasized. Otherwise, creating a new agency that eventually becomes permanent will only spread scarce human resources and add to the overlap of ineffective agencies with similar mandates.

A.I.D. also needs to assess whether it has the human resources to carry out programs that may be skills intensive in policy dialogue, procurement and logistics, and financial control. Most nonproject assistance programs incorporate policy conditionality, and if A.I.D. wishes to take an active role in the policy dialogue, it needs staff with appropriate economic expertise. Certain nonproject assistance activities, especially PL 480, involve intensive monitoring of commodity procurement and use. Insufficient monitoring of in-country rice stocks was a problem in Madagascar, and the Mission had to hire additional personnel to avert spoilage.

Programs may not be administratively feasible if they are in conflict with A.I.D. regulations. Participation in social investment funds and social action programs in which local governments ask donors to pledge funds to a common pool may not be allowable because of restrictions on commingling of funds. PL 480 programs may not be allowed if food aid volumes displace commercial imports, provide a disincentive to local production, or exhaust storage capacity. If these hurdles cannot be avoided, Missions may be forced to seek other funding mechanisms or types of programs.

Finally, economic feasibility must be measured using cost-benefit or cost-effectiveness analysis. Design changes may be required to lower costs and increase benefits. However, the Mali and Madagascar case studies highlighted the fact that there may be tradeoffs between economic feasibility and political reality: in essence, funding a program that is unattractive to the donor in order to render the economic reform politically palatable to the host country government and its constituents.

If programs are funded, economic costs and benefits should be monitored continually. As pointed out, monitoring plans in at least two areas - severance programs and public works programs - tend to be weak. Better monitoring can lead to improvements in program design and implementation.

Boxes 1 and 2 are checklists intended to assist Missions in the design of severance programs and public works schemes. Based largely on lessons learned in this study, these checklists highlight major issues for consideration by design and evaluation teams and by those who review such programs in Washington. No checklist has been prepared for food aid schemes, such as the buffer stock, because guidance prepared by A.I.D. on the major elements of disincentive analysis already meets this need.

Areas for Future Research and Data Needs

A number of questions about severance programs remain unanswered. Most important, What is the potential of severance programs in generating small-scale enterprise? and What are the determinants of success or failure after leaving public employment? Although most adjustment programs streamline public sector employment, only two tracer surveys of former government workers who benefited from safety net programs were uncovered. This lack of information is probably due to a view common among donors that severance programs are a necessary evil to be supported on a one-time basis to encourage host governments to sustain elements of adjustment programs they consider politically unattractive. As such, donors have little interest in examining severance programs in the same way they would study more standard types of development interventions.

Another question that should be examined relates to the cost-effectiveness of voluntary departure programs: What is the approximate amount of severance pay required to induce just the right number of people to leave? The benefits offered in Mali were generous in comparison with those offered in some other countries. Because there were almost two applicants for every VED position, participation had to be rationed. Benefits therefore, could have been reduced to induce the same number (or more) employees to leave, increasing the cost-effectiveness of the program.

To date, the record of retraining programs has not been good. Identifying cost-effective strategies for designing such programs to better meet the needs of retrenched workers is a major challenge. A number of lessons about what works are apparent from experience in the OECD countries. However, applying these lessons and monitoring program success have not yet been done in developing countries.

Monitoring the economic impact of individual infrastructure investments has generally been poor. Because a large-scale public works program often involves funding a large number of miniprojects, monitoring every subactivity is not cost-effective. More work is needed to identify cost-effective monitoring systems, which would involve analyzing sampling strategies for determining representative investments and identifying simple, but reliable, cost-benefit analysis techniques. Moreover, followup evaluations several years after infrastructure has been created have rarely occurred. A series of these should be done for public works programs that have been viewed as generally successful. Such a review should focus on the degree to which infrastructure is still being used, whether it is being maintained and at what cost, and whether it has benefited a broad base of the local population.

More study is needed of A.I.D.'s experience with compensatory and social safety net programs in Latin America. Although the highest concentration of severance programs is in Central America, no analyses of A.I.D. experience with them could be found. Although most of the severance programs are new, some are perhaps far enough along for a preliminary examination. Missions in Latin American countries that are currently involved in severance programs should develop monitoring plans that include tracer surveys to elicit opinions from participants about how well the program was carried out and to track former public employees' uses of severance funds. For Missions that supported such programs in the recent past, it would also be useful to carry out tracer surveys if reasonably reliable lists of program participants are available.

A.I.D. intervention strategies in Eastern Europe are still in the formative stages. Although Eastern European resource needs are great and A.I.D. resources are limited, the feasibility of launching more safety net activities in this region should be considered. As mentioned in Section 3, thorny technical questions regarding cost-effective targeting are less of a problem in Eastern Europe than elsewhere, and governments there have experience in implementing safety net programs. The FY 1993 Congressional Presentation described Eastern Europe as a testing ground for the larger challenge of administering aid to the newly independent states of the former Soviet Union. Given this challenge, it becomes even more important to launch and carefully monitor some pilot programs in Eastern Europe.

Finally, it should be mentioned that nonproject assistance activities pose special informational challenges to central bureaus in A.I.D. Many of the development activities undertaken are poorly recorded, lacking both initial approval documents (Program Assistance Identification Papers [PAIP], PAADs, cable traffic) and evaluations. When documents exist, they never find their way to a central A.I.D. filing system. The discussion in PAADs on the uses of local currency is often only illustrative, indicating the types of activities that may be funded. The bulk of discussion usually concentrates on policy issues and conditionality, justification for commodities to be imported under the program, and logistical and financial control issues. Although the documents discuss in detail the foreseen development impact of the dollars to be expended they rarely address local currency expenditures. To maintain Mission flexibility and a degree of decentralized decision-making, it may be better to continue to leave some leeway in PAIPs and PAADs. However, once actual local currency uses are determined, A.I.D. records and evaluations of these uses should be transmitted to A.I.D./Washington and centrally filed to enhance A.I.D.'s institutional memory. Otherwise, only half of the story of nonproject assistance development impact will be documented.

Footnotes:

1. The first study, Kingsbury (1994), was funded under the Consulting Assistance for Economic Reform project.
2. These organizational issues included two basic approaches to compensatory program implementation - the multisector approach and the sector-by-sector approach. The multisector approach (known also as social action programs) groups together into a single program actions in several sectors - health, education, agriculture, community development, employment, and the like. The sector-by-sector approach involves freestanding projects in each sector that are linked by a common purpose. See Kingsbury (1994) for a more complete discussion of how these have been organized.
3. The equivalent of Project Papers for A.I.D. project assistance or staff appraisal reports for World Bank projects.

4. This argument has also been advanced in other regions of the world. For an elaboration as it relates to Sub-Saharan Africa, see Sahn (1991).
5. The source for the energy sector support is interviews with officials from the Eastern Europe Bureau; the source for the two retraining programs is A.I.D. 1991.
6. Despite the concentration of safety net programs in Latin America, no A.I.D. evaluations of them could be found. A.I.D. was one of a number of contributing donors to the Bolivia Emergency Social Fund. For a case study of this program, see Kingsbury (1994).
7. As will be discussed, formal retraining was not an explicit element of the VED Program. However, somewhat related to retraining was the use of local consulting firms to prepare investment feasibility studies. Retrenched workers were to be given information to use in their private sector endeavors.
8. Although the ratio of material procurement expenses to personnel expenses is difficult to compute exactly because of data problems, program evaluators estimated the materials-to-personnel expenditure ratio as 0.317 in 1986, rising to 0.485 by 1988 (Rugh et al. 1990).
9. This represented slightly more than 1 percent of the estimated 40,000 to 50,000 civil servants in Mali (Rugh et al. 1990).
10. The exchange rate for the 1987-1989 period averaged $1.00 or CFAF 286 (IMF 1991).
11. It is a common feature in many severance programs (both voluntary and involuntary) to exempt employees in certain key social sector job categories. For example, in Ghana, Guinea, and The Gambia, teachers were exempted from downsizing exercises. The health sector was also untouched in The Gambia and Guinea (de Merode 1991).
12. The annual breakdown of participants was 210 in 1987, 300 in 1988, and 134 in 1989 (Rugh et al. 1990).
13. Compared with some other Sub-Saharan African countries, this is very generous. Ghanaian severance pay amounted to only $350-$750 per retrenched worker (Alderman, et al. 1992) and in Guinea to $900 (de Merode 1991).
14. The BCEAO sets interest rates for different types of operations (small- and medium-enterprise lending, agricultural marketing credit, and the like). The highest rate for ordinary credit was in the 13-15 percent range from 1987 to 1989 (Nelson 1991).
15. Personal communication from James Elliot, former Mali Mission macroeconomist.
16. Taking the midpoint of the intervals displayed in Table 4 as the average for those responding in those intervals, one calculates the amount invested, extrapolates from the sample portion investing to the number of 1st-wave volunteers investing, and recalculates the total invested. This yields a figure of CFAF 187.5 million (approximately $700,000 using the average 1987 exchange rate). This is approximately 26 percent of first-year expenditures on severance and retirement. As of January 1988, this amounted to CFAF 707,989,210 ($2.65 million) for the first 210 volunteers

(Seydi and Solomon 1988).

17. Also see Kingsbury (1994) for a discussion of the poor performance of the credit and retraining components of Senegal's Civil Servant Redeployment Program.
18. CFNPP researchers will address this question econometrically in future research on the Ghanaian program (personal communication from Stephen Younger, July 1992).
19. In Ghana, benefits totaled $370 to $750 and were calculated based on up to 10 months of salary for every year of service (Alderman et al. 1992). Malian benefits were the equivalent of 3 to 4 years of base pay and totaled approximately $4,000 to $10,000 per departing employee (Seydi and Solomon 1988).
20. It is crucial to devote resources to carrying out censuses of public sector employment prior to retrenchment. An accurate census is important for ensuring the integrity of administering the severance program (de Merode 1991) as well as for reducing the costs of constructing a sample frame of former employees for survey purposes (Alderman et al. 1992).
21. See Bowles (1988) for a review of A.I.D. employment generation projects that includes discussion of labor-intensive public works as well as vocational education, food-for-work, export promotion, and small-scale enterprise development.
22. Most of the PCRD background information in this section is drawn from Hachette (1989).
23. Hachette (1989) does not indicate the specific decision rules used to determine how great the pressure was, how this then was used to calculate length of employment rotations, and whether rules varied from one region to the next. One can perhaps presume that unemployment pressure was determined by the excess of applicants over available PCRD spaces.
24. Hachette (1989) admits, however, that the accuracy of Tunisian unemployment figures is doubtful.
25. This tendency was a major problem contributing to the failure of the PAMSCAD program in Ghana (Kingsbury 1994).
26. The R-squared statistic is a measure of the association between a dependent variable and one or more independent variables. The coefficient of variation is a scale-neutral measure of variability about a mean.
27. Evidence from the experience of other countries with public works programs is discussed in the following section.
28. To further this end, the World Bank developed a project with the Tunisian Government's Employment and Professional Training Bureau (Office de l'Emploi et de la Formation Professionelle).
29. "Agreement Between the Government of the United States of America and the Government of Tunisia for the Sale of Agricultural Commodities." July 1986.
30. Discussion in this section of Tunisian input and output pricing policies is based largely on World Bank (1990).
31. The lack of cost accounting procedures in the parastatals made it impossible to determine the extent to which parastatals were recovering costs.
32. One can certainly argue that these job losses were caused by unwise policies pursued prior to adjustment, precipitating

the economic downturn in the first half of the 1980s.

33. See Kramer (1990) for an inventory of these programs.
34. This in no way recommends uniform wage setting. There will often be a need for wages to vary from one region to the next, as a function of supply and demand conditions in regional labor markets. Instead, clear guidelines are needed for analyzing supply and demand conditions to help identify the appropriate wage level.
35. The lean season is commonly referred to as the soudure in French.
36. Excerpted from: "Agreement Between the Government of the United States of America and the Government of the Democratic Republic of Madagascar for Agricultural Commodities Under Food for Progress." August 1986.
37. Some attributed the sharp climb in the 1985-1986 lean-season prices (double those of the 1984-1985 lean season) to the Madagascar Government's poor import management. The popular view in the streets was that price liberalization was the culprit (Hough et al. 1987).
38. See Hough et al. (1987) for a discussion of the inadequacy of storage conditions in 1986-1987. This first FFP evaluation team recommended that all stocks be moved to better storage facilities and that A.I.D. Mission hire a personal services contractor to monitor storage and rice quality. The Mission did both of these in 1987. According to the second FFP evaluation team, eventual losses totaled 4.2 percent of the FFP consignment (Rassas et al. 1988).
39. Production in both 1986 and 1987 set records for Madagascar at 2.23 million metric tons and 2.3 million metric tons respectively (Dorosh et al. 1990).
40. Sigrist Supervision and Back-to-Office Report, February 1988, as quoted in Meerman (1991).
41. Markets other than Antananarivo and Tamatave. Donors would have preferred that a higher proportion be distributed in peripheral markets, and the Madagascar Government initially promised that 10,000-20,000 metric tons were to go to these areas (Rassas et al. 1988).
42. Meerman (1991) makes this point, although he admits to a lack of quantitative evidence on distributional impacts.
43. This was alluded to as a problem by one of the evaluation teams in reference to the WFP in Madagascar (Hough et al. 1987).
44. See Kingsbury's (1994) discussion of the Mexican tortibono program and Kanbur's (1988) description of a similar effort in Sri Lanka.

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